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ROLL NUMBER

DESCRIPTION

2224

2007 SENATE FINANCE AND TAXATION

SB 2224

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2224**

Senate Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: February 7, 2007

Recorder Job Number: # 3064 & #3075

Committee Clerk Signature

Sharon Kenyon

Minutes:

Sen. Urlacher called the committee to order and opened the hearing on SB 2224.

Sen. Grindberg prime sponsor of the bill appeared in support and presented amendments.

Steve Mercil: CEO of Rain Source Capital appeared in support with written testimony. (See attached)

Sen. Cook: how is the return determined on the risk?

Answer: determined by the Angels

Sen. Cook: so the return is going to be different on each deal?

Answer: yes

Sen. Tollefson: this is not too different from the Venture Capital Organization is it?

Answer: this is how its different, it uses venture capital techniques to make equity investments so its buying stock like venture capital but the difference between on how these individuals react is their more patient, there doing smaller rounds of capital so the average venture of capital rounds today is probably between 5 and 8 million.

Sen. Hacker: co-sponsor of the bill appeared in support and feels it's a phenomenal tool for these groups to get together and to provide some capital to our urban stage start up

companies throughout the State of ND so they can access some capital, develop their business and releverage that money. In other words to expand their business.

Bruce Gjovig: Center for Innovation appeared in support with written testimony. (See attached)

Sen. Tollefson: the typical investment is high risk?

Answer: yes

Sen. Oehlke: who actually manages or makes the decision on who gets the dough?

Answer: the fund themselves do as a collective group, the Angels themselves.

Sen. Oehlke: would someone have more votes if they've invested more than someone else?

Answer: no, they each get one vote.

Sen. Cook: do you find competing with other deals out there?

Answer: it has happened in other states but not here.

Sen. Tollefson: There are other venture capital groups in the state, do they receive the treatment your looking for here?

Answer: yes

Sen. Horne: do we have an angel fund law in the books now?

Answer: no

Duane Tietz: Northern Plains Investment Fund in Bismarck appeared in support and gave scenario of their venture.

Raymond Gruby: CEO of Gruby Technologies appeared in support with written testimony. (See attached)

Dana Bohn: Economic Development Assoc. of ND appeared in support with written testimony. (See attached)

Bob Humann: Senior Vice-President of Lending for the Bank of ND appeared in support with written testimony. (See attached)

Sen. Oehlke: Why don't you have your own angel fund?

Answer: in some aspects they do, the ND for Development Fund, its state dollars, not individual investors that have provided the funding for that fund.

Sen. Tollefson: if this bill passes you could invest outside of the state.

Answer: what we're trying to accomplish here, the way the law is currently written we know that our dollars have to be invested in ND so we haven't been able to just go out and buy membership units in these 3 community based funds. For such a small percentage of the out of state investments that we going to make it doesn't seem like its really worth the extra paper work.

Sen. Tollefson: \$5,000 is probably not very big but this would open the door, then co-investments would not be necessary and investments of larger amount could be out side of the State with the Bank of ND money. To me it opens it up. It would be ND dollars from the Bank of ND which now the law prohibits that type of out of state investment, is that correct?

Answer: that's correct. But as a state owned bank our mission is to promote economic development and we want to do that in the State of ND so we want these dollars to be spent in ND that's our primary mission.

Sen. Horne: do angel fund investors get a tax credit even if their investment is made out side of the State of ND or are they restricted to the State of ND investments?

Answer: I don't know.

Donita Wald: Tax Dept. To answer that, yes you would

Sen. Oehlke: How much do you need to start up an angel fund?

Steve Mercil: minimum of \$500,000

Sen. Cook: In order for the Bank of ND to buy membership units, do you need the amendment?

Bob Humann: yes we need it.

Sen. Cook: I assume that the biggest thing that passing this piece of legislation is going to offer the incentive is the tax credit. That certainly isn't an incentive to the Bank of ND is it?

Bob: correct, we don't pay taxes.

Sen. Cook: where is the benefit to the bank by going into the angel fund rather than just go and invest it in a ND company?

Bob: the real question is why are we involved in these rain funds? We have our own separate equity program through the new venture capital program so why are we supporting these rain funds? To help them get started, they have to start out somewhere and by having us involved and having our people part of their voting groups, and it just adds support to their local community based angel investors is really what it does. That's the sole reason we're involved in them because we already had a separate investment in Gruby Technologies.

Donita Wald: Tax Dept. Appeared to go through the bill stating that basically this bill was drafted exactly like the seed capital investment tax program.

Sen. Anderson: on page 2 line 7 you can claim no more than 1/3 of the credit and line 29 says the credit must be credited against the income the tax payer's income tax liability for the taxable year. So I read one where its you can only take off 1/3 in the year but this one says you can only take it off in the year that you invest it. Am I reading that incorrectly?

Donita: yes. Line 29 to 31 says the credit in section 03, the purpose of this section really is to say when you can take the credit, the purpose is to say you take the credit in the year that the investment was made whatever amount of credit your able to claim.

Sen. Oehlke: so basically if I already had enough deductions so I really have a tax and I made this investment, I wouldn't be able to defer one part of it until next year anyway, I'd have to take it in that year regardless of what my tax situation might be.

Donita: that's correct. I would like to propose a couple of amendments, #70255.01tx and #70255.02tx.

Sen. Horne: Recertification, who certifies in the first place and why some funds need to be recertified?

Donita: we are proposing that the certification process be made by the Commerce Dept. as opposed to having the Tax Commissioners certify these angel funds. We think its kind of a conflict of interest when we are certifying the angel fund as being eligible to receive funds that can get a tax credit and then turn around and if the angel fund doesn't comply then we have to decertify the fund then we have to go back and get tax credits for tax payers who said go ahead and invest in. So its an awkward situation for us to be the certifier and the enforcer of the tax credit.

Closed the hearing.

Sen. Tollefson: I had a concern with one of the amendments 0101 which deals with investments outside the State of ND. My concern is with the Bank of ND which historically was created for the benefit of the citizens of the State of ND I think is being transgressed a bit by that section 1 amendment on 0101. To allow any investments outside the State is contrary to the premise that the Bank of ND is built. I think this amendment is contrary the wishes of the Historic legislation that has been enacted.

3075

Sen. Tollefson: some of my concerns were the amendment 0101 and was to do with the special venture capital investment, Bank of ND and their investment in this; I've taken my concern away.

Sen. Cook: I move the two amendments that were offered by the Tax Commissioners Office 01tx and 02tx, seconded by Sen. Horne.

Sen. Cook: 01tx is simply technical in nature and 02tx had to do with clarifying the certification process and recertification.

Sen. Oehlke: the problem I had with recertification is that when it forces any angel fund stand at for 8 years. I think the wording on that were changed to the angel fund shall apply to the direction, number 3 and then cross out only one recert is available.

Sen. Anderson: so that it takes the overseeing away from the Tax Dept. or they'd be overseeing themselves?

Sen. Cook: yes

Voice vote: 6-0-1

Sen. Tollefson: made a Motion for DO PASS on 0101, second by Sen. Oehlke.

Sen. Horne: if we approve this then it gives the Bank of ND worth all to invest in angel funds that invest in out of state ventures? 1) How much the bank can invest in out of state and 2) in favor of restricting?

Sen. Anderson: the Bank of ND want to join up with people in an Angel fund that they can be a member of that group but I didn't hear them say they were going to invest outside of ND. Maybe I misread that. I don't want to the Bank of ND money going out of state. Can we write something in there to make it more clear that no Bank of ND money can go outside of ND?

Sen. Urlacher: now they can't invest outside of ND

Sen. Horne: I heard him say that the Bank of ND can be involved with an Angel Fund that invests out of state but they have to have a separate document. It's cumbersome, takes time and they want to eliminate that irritant by having this amendment passed to allow them to invest out of state with an angel fund if their a part of that angel fund, this would allow them to do that as part of another group, not on their own. Is guess the question now is do we want to give the Bank of ND the authority to blend in the Angel funds seamlessly and invest in money out of state?

Sen. Tollefson: the legality of the amendment is proper according to the AG's Office. But we're talking about is philosophy. If the Bank of ND is going to get involved with any angel fund it becomes very clumsy apparently to go through the legal work and the process to keep those funds separate when your invested in an angel fund. In order to do that, this amendment is necessary so we can wipe out the problems with trying to keep it separate.

Sen. Horne: my concern is that we would be saying in affect if we approve this, the main part of the bill we'd be saying, its alright for folks in angel funds to invest up to 49% of their investments out of state and still receive a 45% tax credit and I question whether that's what we really want to be encouraging.

Sen. Urlacher: is that going to make the bill ineffective?

Sen. Horne: I don't think so; it would just force them to keep most of the money in ND.

Voice vote: on motion to approve amendment 0101. 1-5-1 Motion fails

Sen. Horne: I made a Motion to amend on line 9, page 1 to at least 70% of the angel funds investments must remain in ND to qualify for 45% tax break, 70% - No second, Motion fails.

Sen. Cook: made a Motion to change 51% to 100%, seconded by Sen. Horne.

Sen. Oehlke: if we did that then we certainly wouldn't have any problem with the bank.

Sen. Urlacher: will this eliminate the bank to be a partner in that because of the outside investments?

Sen. Cook: the question on the banks amendments is do they participate by buying units in an angel fund or do they participate as a co-investor? They can do that anyway, that's why I didn't understand, they never sold me on the benefit of buying the units, the benefit is a tax credit and they don't pay taxes. Sen. Cook read the definition of a qualified business out of the Century Code.

Sen. Tollefson: if think if we ignored amendment 0101 we'd be right back to where we were and the bank would have to jump through the hoops to make any investment in an angel fund.

Voice vote: 6-0-01 amendment carries

Sen. Cook: made a **Motion for DO PASS as amended**, seconded by Sen. Oehlke.

Roll call vote: 7-0-0 Sen. Tollefson will carry the bill.

FISCAL NOTE
Requested by Legislative Council
03/15/2007

Amendment to: Engrossed
 SB 2224

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

Engr. SB 2224 with House Amendments allows a qualified Angel Fund that invests in a qualified business to receive the seed capital investment tax credit, and to assign that credit to the investors in the Angel Fund.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

It is not known if an Angel Fund will make investments in qualified businesses or if an Angel Fund will receive any seed capital investment tax credits in the 2007-09 biennium.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	03/15/2007

FISCAL NOTE
 Requested by Legislative Council
 01/16/2007

Bill/Resolution No.: SB 2224

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB 2224 creates an income tax credit for investments in an angel fund.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 defines an angel fund and sets out the reporting requirements and computation of the tax credit. Each qualifying taxpayer is limited in the amount of tax credit that can be claimed, with the overall ceiling on the available tax credits limited to \$2.5 million per year. It is not known if the \$5 million biennial limit will be reached in the 2007-09 biennium.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Kathryn L. Strombeck	Agency:	Office of Tax Commissioner
Phone Number:	328-3402	Date Prepared:	02/07/2007

PROPOSED AMENDMENTS TO SENATE BILL NO. 2224

Page 1, line 3, after the semicolon insert "to amend and reenact subdivision c of subsection 4 of section 6-09-15 of the North Dakota Century Code, relating to defining eligible investments by the Bank of North Dakota in North Dakota alternative and venture capital investments;"

Page 1, after line 4, insert:

"SECTION 1. AMENDMENT. Subdivision c of subsection 4 of section 06-09-15 of the North Dakota Century Code, as effective through July 31, 2009, is amended and reenacted as follows:

- c. In North Dakota alternative and venture capital investments and early-stage capital funds, including the North Dakota development fund, incorporated, not to exceed ten million dollars, for the purpose of providing funds for investment in North Dakota alternative and venture capital investments and early-stage capital funds and in North Dakota-based venture capital entities whose investments may include companies outside North Dakota. The Bank may allow for third-party management of the funds invested under this subdivision if the management is provided by the North Dakota development fund, incorporated, or a third party that is located in the state and that has demonstrated fund management experience."

Page 2, line 12, replace "a qualified business" with "an angel fund"

Page 2, line 14, replace the second "a" with "an angel fund"

Page 2, line 15, remove "qualified business"

Re-number accordingly

PROPOSED AMENDMENTS TO SENATE BILL NO. 2224

Page 1, line 10, after "57-38.5" insert "and is in compliance with the requirements for filings with the securities commissioner under the securities laws of this state"

Page 2, line 12, after "A" insert "partnership, subchapter S corporation, limited liability company that for tax purposes is treated like a partnership or any other"

Page 2, line 18, after "be" insert "made on or after the certification date and must be" and after "fund" insert "to be eligible for the tax credit under this section"

Page 2, after line 7, insert:

"7. An investment made in a qualified angel fund from the assets of a retirement plan is deemed to be the retirement plan participant's investment for the purposes of this chapter if a separate account is maintained for the plan participant and the participant directly controls where the account assets are invested."

Renumber accordingly

PROPOSED AMENDMENTS TO SENATE BILL NO. 2224

Page 1, after line 10, insert:

- "2. "Director" means the director of the department of commerce division of economic development and finance."

Page 1, line 11, replace "2." with "3."

Page 1, line 15, replace "3." with "4."

Page 1, line 17, remove "The tax commissioner shall certify"

Page 1, replace lines 18 through 20 with

- "1. The director shall certify whether a business that has requested certification as an angel fund under this chapter meets the requirements of subsection 1 of section 57-38.7-01. The director shall establish the necessary forms and procedures for certifying qualifying angel funds.
2. A certification letter must be issued by the director to the qualified angel fund. The certification letter must include:
- a. The certification effective date.
 - b. The certification expiry date. The expiry date may be more than four years from the certification effective date.
3. An angel fund may apply to the director for recertification. Only one recertification is available to a qualified angel fund. The application for recertification must be filed with the director within ninety days before the original certification expiry date. The recertification issued by the director must comply with the provisions of subsection 2."

Page 3, line 23, after the period insert "The director is charged with administration of this chapter as it relates to certification of qualified angel funds and the commissioner of commerce may adopt rules for that purpose."

Renumber accordingly

Date: 2-7-07

Roll Call Vote #: 1

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2224

Senate Finance & Tax Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass As Amended

Motion Made By Sen. Cook Seconded By Oehlke

Senators	Yes	No	Senators	Yes	No
Sen. Urlacher	✓		Sen. Anderson	✓	
Sen. Tollefson	✓		Sen. Horne	✓	
Sen. Cook	✓		Sen. Triplett		
Sen. Oehlke	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Senator Tollefson

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2224: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2224 was placed on the Sixth order on the calendar.

Page 1, line 9, replace "at least fifty-one" with "one hundred"

Page 1, line 10, after "57-38.5" insert "and is in compliance with the requirements for filings with the securities laws of this state"

Page 1, after line 10, insert:

"2. "Director" means the director of the department of commerce division of economic development and finance."

Page 1, line 11, replace "2." with "3."

Page 1, line 15, replace "3." with "4."

Page 1, line 17, remove "- Investment reporting" and remove "The tax commissioner shall certify"

Page 1, replace lines 18 through 20 with:

"1. The director shall certify whether a business that has requested certification as an angel fund meets the requirements of subsection 1 of section 57-38.7-01. The director shall establish the necessary forms and procedures for certifying qualifying angel funds.

2. The director shall issue a certification letter to a qualified angel fund. The certification letter must include:

a. The certification effective date.

b. The certification expiration date, which may not be more than four years from the certification effective date.

3. An angel fund seeking recertification shall apply to the director. The application for recertification must be filed with the director within ninety days before the original certification expiration date. The recertification issued by the director must comply with the provisions of subsection 2."

Page 2, line 12, after "A" insert "partnership, subchapter S corporation, or limited liability company that for tax purposes is treated like a partnership or any other"

Page 2, line 18, after "be" insert "made on or after the certification date and must be" and after "fund" insert "to be eligible for the tax credit under this section"

Page 2, after line 28, insert:

"7. An investment made in a qualified angel fund from the assets of a retirement plan participant's investment for the purposes of this chapter is a separate account, is maintained for the plan participant, and the participant directly controls where the account assets are invested."

Page 3, line 23, after the underscored period insert "The director is charged with administration of this chapter as it relates to certification of qualified angel funds and the commissioner of commerce may adopt rules for that purpose."

Renumber accordingly

2007 HOUSE FINANCE AND TAXATION

SB 2224

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2224A

House Finance & Taxation Committee

Check here for Conference Committee

Hearing Date: 2/28/07

Recorder Job Number: 4098

Committee Clerk Signature



Minutes:

Rep. Belter: We will open the hearing on SB 2224. Clerk will read the title.

Sen. Tony Grindberg: Sponsor, support. This bill can be described as an extension of the seed tax credit program that we have put in place here over a number of sessions making improvements and enhancements, to stimulate private investment into the growth of the state of ND, so we can move into the operation of business development. If you stand back and look at what we have primarily concentrated our efforts on, session after session, we know the seed tax credit program has been very popular. It has been changed the last couple of years to make it user friendly, with projects around the state. We haven't funded the ND Development Fund for a couple of biennium's because of their portfolio and their return on investment, but primarily that was funded by the State, and now it's been put into the Executive budget to put some capitol back into the ND Development Fund. My point to a couple of these examples is that the state of ND continues to look at best practices and ways to create programs and state support for what could be called venture capital. What this bill does, in one way it pools, and could potentially be used by the Seed Tax Credit program or a group of investors who would pool their funds in a regional annual investor network. One of the gentlemen that testified in the Senate side, who was the organizer of such funds out of

Minneapolis/St. Paul, could not be here today, but this has been a very effective program that has been growing across the Midwest. I believe there are 17 funds now, MN, IA, SD, 3 here in ND, one based in Grand Forks, one in Fargo that just made its capital call here last month, and then a fund here in Bismarck, and I'm not sure of the date, but there is a gentleman here that will talk about that in a little more detail. The bill proposes to extend the seed tax credit program, and that's by providing tax credits for those investors who would want to pool their funds, and have it organized by an administrator entity per se, that would be assisting with due diligence, looking for deal flow and looking for ways to grow start up business and businesses in ND. One way of looking at why pool, it would be to spread the risk. Obviously if it is a group of investors who are investing in a fund and the fund is making an investment in a company, that risk is spread rather than one or two individuals. That's one of the key advantages of this. I firmly believe this is another stage that we need to consider and put into law. As we go about our business and policy committees and appropriations, we all know that growing our new kind of trends that come before us and as they continue, we need to be there as a state to provide those tools so that we are positioned well for the entrepreneurs and risk takers in the state. I think it's a fair thing for the state to share in that, quite frankly to do that now already in some taxpayer programs. One thought, I believe, and I encourage your strong consideration, is that on the Senate side there is a requirement of a 100% of the funds would, as I understand it, the tax credit that applies toward the fund, those funds need to be invested in the state. I would ask you to remove that. One of the benefits of this regional fund approach, is that three funds in ND that exist today can leverage funds in other states. So from an administrative standpoint, if a fund made some investment, \$100,000 investment in a start-up company, the fund in Alexandria, MN or the fund in Minneapolis/St. Paul, because of that type of company, I would also have an interest in investing in that company in ND as well. So for our purposes,

we need to be careful that we don't restrict and create an administrative burden for an investor in ND who might be called on to put part of the fund, the fund might be called on to put an investment in the Alexandria, MN firm as well. They need to work hand in hand. Wealth can travel both ways in my vision of how this would ultimately work. I would go a step further with that consideration and put a sunset on it, and then come back in a period of time, 4 or 6 years from now, and look at how the funds that have been established for that period of time, wherever investment's been made and that will describe what many believe, the intent is to invest in ND businesses, but there's also some value to collaborate with other funds in other states.

Rep. Belter: Under the Seed Capitol program, was that also a 45% tax credit.

Sen. Tony Grindberg: It is my understanding, correct.

Rep. Weiler: Can you explain the fiscal note to me, there is nothing up on top, but in the middle of the page it talks about \$2.5 million and \$5 million. Can you explain that.

Sen. Tony Grindberg: I would have to have Dee Wald explain that.

Rep. Schmidt: Is the angel fund, is that in the chapter in the Century Code.

Sen. Tony Grindberg: It is my understanding, yes

Rep. Belter: Thank you. Further testimony in support.

Sen. Nick Hacker: Support. I won't repeat Sen. Grindberg's comments. What kind of scope are you talking about, is it millions of dollars or not. Angel funds tend to be full investments usually anywhere from funds, there are over 15 of them from MN, IA, ND and SD. They tend to be 15 members, there are contribution minimums and sometimes maximum's of \$50,000 or \$20,000 and each fund is member organized. So a group of individuals from a region meets together and they pool some resources together. Lots of times, the fund has a total of \$1 million or \$1.5 million dollars that the fund over approximately 7 years, will likely invest in

several companies, maybe up to 10 or 12 or 9 or some number in there. So they begin to hedge their risk. There's a great need for these funds to be able to recoup some of that investment right away and receive some incentive to do some of that investment which is why we have this bill before you today. I will explain a little about the process when these people are investing in the start-up or early stage companies. This is so that companies can leverage larger dollars, can develop different lines of business and grow during the essential period in the growth cycle, which is when they need some of this capital. They maybe don't necessarily need millions of dollars and they are two years old and they need to just get to that next stage. That is when this investment is critical. This is where that investment takes that company off the ground and takes it to the next level, which upon, you will begin to see large economic impact to the state. Because they're investing in high risk investments they need some sort of incentives to help do that. What happens is the capital seed tax credit, but they want to form the fund and there are several reasons. Not just the capitol, they just don't leverage their own dollars. But there is expertise that's involved. There is deal flow, if we were a RAIN fund, with all of these minds sitting around here, we all have different expertise about different areas of business, of industry, maybe one of us is very well versed in advanced manufacturing, one in finance, we all bring expertise to the table, but also we're going to bring deal flow. You might know John, who has a great idea sitting in the back of his garage, but has kind of stopped because he doesn't know where to go to some other individuals. So we bring deal flow, expertise. So around this fund, we count a Mecca of essential economic development and alliance. That's kind of the idea behind it. I did bring some other testimony from another individual, Bruce Gjovig, who is pretty well versed in the RAIN fund (see attached testimony #1). But also I speak to a little bit of expertise about some RAIN funds, two of them because they have been successful in MN, in my hometown of Alexandria. It's been interesting to see

these individuals pool their resources and then they really do invest in their hometown area.

The funds normally have a focus of where they are going to invest. Sometimes it is up to a fund and how they are organized, but it may be 75% in the Red River Valley and then beyond that, they will begin to reach out a little further. I've seen several high tech businesses, one of them is a medical device company located in Alexandria and the RAIN fund there really took it off its feet and has gotten it to the next stage and is seeing tremendous economic impact for the town of Alexandria from that RAIN fund. I think this is just another opportunity for us to encourage individuals to pool our resources and expertise.

Rep. Headland: You keep referring to RAIN funds. Are there differences between RAIN funds and angel funds?

Sen. Nick Hacker: RAIN funds and angel funds, I'm sorry. They are very similar. RAIN funds is actually a corporation located out of Minneapolis, which the funds in ND are a part of, it's a network, so they share that ideas with different businesses across state lines, between funds, so Bismarck might have a great idea and it's an organized corporation that facilitates the transfer of that information, they also help with due diligence in looking at the different pieces of each deal. They will share that information between Bismarck and Grand Forks, let's say, Bismarck may have a great idea and Grand Forks might be interested in investing in it. It's called the Rural Accredited Investor Network.

Rep. Belter: Do all angel funds in other states, do they all have the same level of tax credit.

Sen. Nick Hacker: Different states have different levels of tax credit. Iowa has a type of tax credit that investors get in funds (hard to hear). I don't know the precise tax structure in other states.

Rep. Pinkerton: Is there any way to separate out those projects that are going to go without this tax giveaway from those who will not. Is that what the Dept. of Commerce does, it seems

like if there is money being given to projects that are probably going to go irregardless of whether the tax credit or not.

Sen. Nick Hacker: If that's the case, then the economic vitality is there, if the company is doing pretty well, if they don't need the help, they wouldn't be here if they didn't need the help. I don't know how you are going to gauge what the company is going to want. Individuals are providing this investment. They are going to invest in 10 deals, let's say, and in those ten deals they begin hoping that all of them are home runs, but they know that three are probably going to be dogs, four may break even, but the last three, which takes the longest to harvest your money out of, are the ones that you are going to recoup that investment back.

Rep. Pinkerton: Are there any protection mechanisms if a company does well and in five years it is sold out of state, does the state recoup their tax credits if the business is sold out of state within a certain time frame (can't hear).

Sen. Nick Hacker: In that certain situation, I probably don't have the knowledge to speak to that. There are thresholds or pieces of this bill are protecting from some of the negative aspects of investments, like the key capital tax credit, you are capped out at \$250,000 of credit for an investor.

Rep. Pinkerton: Here is an example, there was a successful business that opened up in Bottineau that did really well, and as it matured and became valuable, it was sold out of state, and the more valuable property could be sold and you might still be receiving a tax credit long after the company is gone. Is there a protection against that?

Sen. Nick Hacker: Not if they move, but that business may need to move to thrive, then I think that the best move for the business in that industry.

Rep. Pinkerton: But if it thrives in Florida, that doesn't do much good for ND taxpayers who provided the tax credit.

Sen. Nick Hacker: But what they did, accomplished, in one of many ways, was that it was successful. You helped grow a company. You had nothing before, and if we can provide an incentive in a way that drives some of that investment, then you can't bound businesses to stay. We wouldn't be a very friendly state to do business in. I understand what you are saying, though, that some of the benefit may be lost.

Rep. Pinkerton: It seems like all the benefit would be lost if the company in Bottineau had moved out of state. If these are such good potentials for the state, that we are actually giving them money as tax credits, it is still money that isn't coming into ND's treasury. Would we be better off in an equity position in these companies rather than to simply give them tax credits?

Sen. Nick Hacker: That is a philosophical question, should the state be taking equity positions or should we encourage private sector individuals, and we are probably going to disagree on that. We have tools already that allow the state to place an equity investment in companies, and this is a tool for the private sector dollars to be invested.

Rep. Vig: You were describing the angel fund and the RAIN fund, and I was wondering how these were different than local cooperatives? Where neighbors get together and make the gas station viable. How are these different?

Sen. Nick Hacker: They tend to be a little more organized, a local restaurant wouldn't qualify in the first place, but they tend to be early stage start up companies. (can't hear). The investors tend to be sophisticated and come from maybe engineering backgrounds, etc. What they are there to do is make the investment and move forward in those start up companies.

Rep. Belter: Thank you. Further testimony in support.

Rep. Mark Owens: I am in support.

Rep. Belter: Thank you. Further testimony in support.

Dwayne DewKeets, Chairman, Northern Plains Investment Fund, Bismarck, ND: We were the first RAIN fund to be established in the state of ND. A little history behind that, Niles Hushka was the CEO of Kadrmas/Jackson and myself and I will tell you that I am founder and owner of Cross Country Courier, and the only reason I bring that up, it makes me an entrepreneur, I started the business with one pick up and myself and today we have 400 employees and do about \$30 million dollars a year in sales in ND and the Midwest. Miles and I were trying to put together something that would help young entrepreneurs like us to get their businesses off the ground. We started to develop that on our own, anything and everything from incubators to cooperatives and we just couldn't put together the right mechanics. A year and a half ago we had the privilege of meeting Steve Mercil, who is the president of RAIN Source Capital in Minneapolis. What they do is to work with individual communities to develop angel fund RAIN funds. The benefit to this was that they brought everything together in one meeting that we had been trying to pull together for years. They had the expertise, they had all of the legalities put together and all the structural things needed to put together a RAIN fund, and we moved ahead with it. Within a couple of months, we had 14 members, we were able to capitalize at \$550,000 and within a couple of months after that, we were able to invest in our first project, which was Gruby Technologies here in Bismarck and Greg Gruby is here, and hopefully he can say a couple of words about the impact that we've had in his company. I've also worked with the colleges, especially University of Mary in the Schafer Center in the Entrepreneurship program. Every year we have entrepreneurship fair and we have these young people who have come out of that fair with some very dynamic ideas and business plans. In fact, two of them so far we have helped them get patented and we hope through the RAIN fund and RAIN fund network to be able to set up manufacturing for those products here in ND. A couple of things that Steve Mercil has commented on, because he couldn't be here

today, it leverages other financing options for businesses. It helps attract technology and information service companies. I think all of use hopefully agree that our dependence can't continue to be on agriculture. This is a mechanism that will help us attract other types of companies. It spurs entrepreneurship and innovation. One thing we've always had in the state, I believe, is a conservative state being brought up and punishing failure. In entrepreneurship, failure is almost a badge, because it means that you are willing to risk and come forward with an idea and put everything you've got, into it to make it go, yet most of those people can't step forward because the first stage financing is what hasn't been there up until this fund was formulated. It helps create and maintain quality jobs and it diversifies the community's economic base. Some of the barriers that we've had because of not having access to angel funding has been angel investors are difficult to locate. There are a lot of people in this state, we probably have more closet millionaires than any other state, but it is very hard individually to get to those people to get them to invest. By putting together a RAIN fund, it gives you the ability and the dynamics to have not only capital but also intellectual capital to help those new companies, not only with money, this is not just about money, it's about giving them expertise and the power of being under the umbrella of RAIN source capital as a fund ourselves, in Fargo and Grand Forks, is if we are working with Gruby Technology and we don't have the depth of knowledge for medical technology and software, we can go to another RAIN fund in any of the four states and ask them to help us with that due diligence and they were able to do that. In fact, Steve Mercil's due diligence in Gruby Technology helped us tremendously in going forward and feeling comfortable in investing in his company. Lastly, some of the other things that the RAIN fund does, it will be identifiable and available to entrepreneurs. The way that happens is that there is a website that any entrepreneur can go to and start the process. It walks them through the initial stages to see where they are at and that then comes back to

us where we can screen it and see if it has the opportunity to move to the next level where we can help them with the funding. It also removes the confusion and delays caused by multiple terms and multiple agreements. Back to the coop type thing, where if you tried to get too many people individually into a deal, how do you write up those agreements, who is going to write them up. The benefit we have is we have the expertise through RAIN Source Capital, both legally and structurally to get those types of arrangements put together legally and effectively. This bill will tremendously help us, especially early stage in bringing those entrepreneurs to the forefront. I think the timing is incredible because of Innovate ND, which I'm sure you are all aware of and familiar with; I am involved as well, along with Linda Butts. We already have over 120 applicants that have come forward to compete in the Innovate ND. There are going to be some dynamic business plans which will come out of that and we'll find some entrepreneurs that we will be waiting there to help to fund, to help them grow and to help them stay in ND.

Rep. Belter: Do you know what type of tax credit are adjoining states give.

Dwayne DewKeets: I do not, Steve Mercil, if he had been able to be here, would have been able to answer that.

Rep. Headland: I am just curious. You're asking for a tax credit from the state, I want to know, I realize that there is a lot of risk involved in this type of investment. But what kind of return are you looking for when you make an investment in the angel fund.

Dwayne DewKeets: It goes back a little bit to what Sen. Hacker talked about. That is, we will look at spreading it out over about 10 deals; Gruby Technology being one of them and we're going to look at approximately 8-9. What we look at is exactly what he said. You're going to have three or four that will pledge and probably not make it. You'll do everything you can to make them go. In looking and meeting with the other RAIN funds in the other states that have

been established for 6-8 years, the ones that do make it and make it through, their average return has been somewhere between 46-48% on those investments. What really stimulates those, we didn't talk too much about side by side investment. The RAIN fund, or the angel fund, will invest in a project, but it allows any member of that RAIN fund to also invest side-by-side. That's where people like me, who are members of this fund, where we see that we can make our biggest return. We'll initially through the fund establish some of these companies, but we're going to provide on-going due diligence, we're going to want to see their financial condition on a quarterly basis and we are going to follow that, because we want that investment to work. We're also going to be able to determine which ones are going to be home runs because of that; it's a benefit of being in that fund and we're going to be able to invest side by side, individually, not through the fund to also reap rewards that way.

Rep. Belter: I guess my question is, the individual who is going to invest in these, obviously have to be people who have risk capital and it just seems to me is it really necessary that the taxpayer has to fund 45% of that risk in order for these people to take these financial risks.

Dwayne DewiKeets: I think it depends on how you look at it and what you're trying to do. From my perspective, I believe it takes every possible financial incentive upfront to attract the entrepreneurs, those people that have the ideas, the patents for the business product, to get through that first stage. That first stage is called the hook. In order to get through that, you need angel investing, you need every part of investing that's non-banking related in order to make that happen. I believe that every tax credit, every investment possibility needs to be out there to get through that first stage. I think that's what we're looking at. It's also about economic development. My biggest push to do this, was to try to keep my children here. In doing that, in order for them to come up and start their own business, I believe all those types of things are needed as ammunition to get them off the ground. I think what you're doing is not

looking at it as what's the state giving money away to, but what is the state investing in and what it can do to build employment and new companies within the state.

Rep. Pinkerton: I admire your success. I guess it still goes back to why the state is doing this, we're just giving this, no ifs, ands or buts about this. Why would we not want an equity position, because we have nothing to lose, we've already given the money; an equity position would allow us to participate in a home run.

Dwayne DewiKeets: I totally agree with that, I just don't know the legalities and if the state can truly take that equity position. The state constitution doesn't allow that.

Rep. Pinkerton: So that was why it was amended for the state mill and elevator and the bank, that we are invested in.

Dwayne DewiKeets: I don't know about the state mill and elevator.

Rep. Pinkerton: I guess those are competing with business entities that I would presume that they might be under the same regulations, prohibition is what it would be for us to be equity partners with start-up businesses. I don't understand the constitutional thing.

Rep. Drovdal: Where are we coming from? If I was an individual investor and wanted to invest in one of these programs, what is the advantage to me today to make this type of investment. There must be incentives out there now.

Dwayne DewiKeets: For you to become part of the RAIN fund itself, I'll talk about why I got on. First of all, it was to promote economic development and help young entrepreneurs. Other people came on because it is a way to find investment opportunities that you aren't going to find otherwise. There's a lot of things happening out there. You wouldn't have heard about Gruby Technologies, and neither would I, if it wasn't for being a part of this type of fund that is also a network of deal flow through four states. So it gives me an opportunity not only for opportunities right here in this area, Bismarck/Mandan, but even in the state and possibly even

beyond that. Secondly, what I found out to be even more powerful than the deal flow, is the intellectual path flow. The ability to do due diligence on companies, for finding expertise. How do you get somebody beyond the patent to that next level. We don't have a lot of expertise right here in manufacturing, but I can reach out to Minneapolis/St. Paul and use their expertise and they will tell me where I need to go, here's the structure, here's how it's been done before. You have three successful businesses up and running, here is what we did. Follow this path. It takes all the mystery and the real true gamble out of some of it, instead of just saying that this looks like a good idea and here's some money, I hope you can build more than just what in the garage. It's also the return. Ultimately, you're going to find the risk, right now we have \$550,000. We spread that over 10 deals, we're only putting \$50,000-60,000 into individual deals just from our fund. Now Fargo might have kicked in, Grand Forks might have kicked in, whatever to build that leverage, but if that company grows and you see that it has that kind of potential, then I have that ability and you would have that ability to invest in something you already know has quality, because you have been watching it and that's where your returns come in.

Rep. Weiler: In other words, you are saying that it is a high risk, high return, that the person is involved in, because no tax credits or no capital gain credits, it takes intelligence to be part of this, so I don't qualify.

Dwayne DewKeets: I don't think I said that.

Rep. Belter: Thank you. Further testimony in support.

Raymond Gruby, Gruby Technologies: (see attached testimony #2).

Rep. Belter: Thank you. Further testimony in support.

Dana Bohn, Economic Development Association of ND: (see attached testimony #3).

We would ask that you support the original bill and consider removing the Senate amendments.

Rep. Belter: Thank you. Further testimony in support. Testimony in opposition.

John Risch, United Transportation Union: Oppose, at first I thought I want in on this, some of these businesses are having a return of 46-48%, on top of that we are going to dole out a 45% tax credit from the state. It seems like a very lucrative deal and I think in fact it is.

Certainly we applaud these folks who have invested in emerging businesses, but the reason that I stand before in opposition to the bill, in general is the 45% tax credit. It seems awfully generous. Most working folks don't get a 48% return on their savings or investments they make and wouldn't be able to participate in something like this. From a fairness standpoint, I think this tax credit is much too generous, and urge the committee a Do Not Pass.

Rep. Belter: Thank you. Further testimony in opposition.

Sen Grindberg: I think it is important to clarify that these funds don't earn 45-50% return on investments. The point made earlier that 3 or 4 are dogs, that means they lose money, they are gone, a couple may break even, it's the one or two that might provide a 40-45% return, it balances out that whole portfolio, which would probably be a 10-12% return on investments. I just wanted to clarify that.

Rep. Belter: Thank you. Further testimony in opposition; neutral. The 45% tax credit, that can be taken off of any taxpayer's credit, it does not have to be a result of profitability of the investment.

Donnita Wald, Office of State Tax Commissioner: That's correct, and it does apply to individuals and corporations, both long and short form.

Rep. Belter: People who are in corporations, is the individual investor of that corporation, are each individual investor allowed the maximum of \$250,000, if there's 10 people that join the corporation, is each one allowed or is there only one total.

Donnita Wald: Each investor in an angel fund would receive that 45% tax credit up to a maximum of \$112,000.

Rep. Belter: Regardless of how they're organized, whether they are incorporated or S-corp. Can't this group in the angel fund, could they be incorporated.

Donnita Wald: I'm not sure how the angel funds themselves are being set up. Yes there is a tax, but not for a corporation, but through a Sub S and other pass through, they do have that language in here. I drafted this, and it does mirror the seed capital investment tax program and the Ag investment tax programs. They have many of the same features as those two programs that are included.

Rep. Belter: Both the Ag and the Seed are both 45% tax credits.

Donnita Wald: Only the seed is 45%, the Ag is 30%.

Rep. Froseth: Can an investor, the same investor, invest in an angel fund and a seed capital fund in the same qualifying business and get deductions, get two separate deductions.

Donnita Wald: No.

Rep. Pinkerton: So this prohibits you from taking 45 and 45 (can't hear).

Donnita Wald: They would have to be two separate investments, you'd have to invest one in an angel fund, which would be 45% and different dollars would have to go into the seed capital directly. It wouldn't be on the same dollars.

Rep. Belter: Thank you. We will close the hearing.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2224B

House Finance & Taxation Committee

Check here for Conference Committee

Hearing Date: 3/12/07

Recorder Job Number: 4851

Committee Clerk Signature

APenrose

Minutes:

Rep. Belter: We will take a look at SB 2224.

Rep. Owens: I have an amendment for this that basically hog houses the bill and puts the angel fund and a definition of angel fund under the seed capital legislation which basically eliminates a separate angel fund, if you will; and then of course, it eliminates the appropriation, but I don't have it with me right now.

Rep. Belter: You don't have your amendments. Are there any other amendments for this bill.

Rep. Owens: It's upstairs in my briefcase.

Rep. Belter: We will take a look at this later and bring your amendments at that time.

Rep. Owens: I thought about this amendment and forgot about that one. That one I had ready last week and it slipped my mind.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2224C

House Finance & Taxation Committee

Check here for Conference Committee

Hearing Date: 3/12/07

Recorder Job Number: 4927

Committee Clerk Signature *D. Penrose*

Minutes:

Rep. Belter: We will take a look at SB 2224.

Rep. Owens: These amendments as you may be aware come with a letter from the Tax Department (see attached testimony #1). They are special amendments.

Rep. Belter: This would quickly eat up the \$2.5 million cap.

Rep. Owens: It simply adds angel funds to the Seed Capital. Here's the explanation of how that would function because it talks about the \$112,500, but what it is saying, is that it would need to be able to take it, because it is only accumulative, only to what's in and equally divided up between the investors, only what was invested in ND, which is what we were turning the angel fund into anyway, with the amendments. This amendment was created from an e-mail given to me by your Senator, from the Tax Dept of the Dept of Commerce. They created the email to him and he forwarded it to me, and I took it up to the Tax Dept. and this is what came out.

Rep. Belter: Any questions on the amendment. What are your wishes on the amendments?

Rep. Grande: I move the amendments.

Rep. Owens: Second.

Rep. Belter: Voice vote on the proposed amendment. Motion carried. I will give you a day to think about these amendments before we take further action.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2224D

House Finance & Taxation Committee

Check here for Conference Committee

Hearing Date: 3/13/07

Recorder Job Number: 4966

Committee Clerk Signature *A. Penrose*

Minutes:

Rep. Belter: We will take a look at SB 2224. Did we amend this yesterday already.

Rep. Owens: We're amending the Seed Capital bill rather than creating a new bill for angel funds. The actual case here is because most angel funds are LLC, which are passthrough corporations or entities, they can already go under the Seed Capital fund. The catch is, this paragraph in section 2, which qualifies the tax credit so that it's not provided to the passthrough organization based on the full amount that they're investing, but it's passed through to the actual investor in the components, the percentages in which they invested as the seed. Does that make sense?

Rep. Belter: Did we amend this already. Okay I see them.

Rep. Owens: This basically hog houses the bill to amend the Seed Capital law, rather than creating a new angel fund law.

Rep. Belter: I remember that we amended Sen. Horn's bill, and it seemed like we had done it. We have SB 2224 before us as amended. What are the committee's wishes.

Rep. Pinkerton: Do we need to rerefer this.

Rep. Owens: I don't believe so, that was one of the advantages of doing it this way. I move a Do Pass as amended.

Rep. Headland: Second.

Rep. Belter: Questions.

Rep. Pinkerton: When you blend these two bills together is the cost still \$5 million dollars.

Rep. Owens: We've eliminated the fiscal note on the original bill, that \$5 million dollars has evaporated now. There is no cost. As we progress through this thing, and now that I found out that angel funds are set up as LLC, it's more of a matter of protecting the seed capital fund by putting that paragraph in there, than it is about amending angel funds to the seed capital because they can already go under the seed capital as a LLC passthrough entity now. So now it's more about protecting the seed capital fund and making sure that the credits go to ND investors.

Rep. Belter: If I can clarify one point. The original language in SB 2224 had a cap of \$5 million dollars. With this amendment, putting it into the seed capital fund, the cap is actually \$2.5 million dollars, so we've reduced the exposure.

Rep. Owens: The way it was originally written, you had \$2.5 million under the Seed Cap, and you had an additional \$5 million under the angel, so now that \$5 million disappeared and we stuck it under something that we already had.

Rep. Belter: So we actually had a \$7.5 million dollar exposure, and now it's a \$2.5 million dollar exposure in the other bill.

Rep. Owens: Yes.

Rep. Pinkerton: So we've eliminated \$5 million expense to the angel fund and then we put the angel fund into the seed capital fund and also protected the LLP's and LLC's.

Rep. Owens: LLP and LLC's are already in the seed capital bill. That's the problem. So now the angel funds can come in, acting as LLC's or LLP's, and the only problem is because of the way angel funds operate and the way the current seed capital is, they can take the

whole credit and take it as the entity rather than passing it through to the individuals, making sure that it's only North Dakotans, and that's what this paragraph is designed to protect, is to close that loophole.

Rep. Schmidt: Is there any limitations on this, such as for an agriculture business or any business, this angel fund.

Rep. Belter: Any qualified business.

Rep. Schmidt: And that would be agricultural too.

Rep. Belter: Yes, agricultural processing. We have a motion for a Do Pass as amended.

5 YES 6 NO 3 ABSENT DO PASS AS AMENDED MOTION FAILED

Rep. Belter: Do we have a new motion.

Rep. Weiler: I move a Do Not Pass as amended.

Rep. Drovdal: Second.

Rep. Owens: The amendment protects, without that paragraph, it is my understanding that the tax credit can then be taken by the angel fund, so if a ND investor and they invest in a MN company, they can turn around and take the credit or vice versa, for a ND company in MN, the angel fund will take the credit and then pass it through, as opposed to the amendment, force the credit to be passed through automatically to the investor, so that only ND people can do it. Angel funds can already be under the seed capital because they are LLP's or LLC's, so whether we put angel fund on the seed capital or not, is immaterial. We've already put passthrough entities on there.

Rep. Belter: Further discussion.

Rep. Drovdal: If you've already done what this bill is intended to do, why pass this bill.

Rep. Owens: I don't think they realize, because the bill we passed earlier in the session added passthrough entities and what not to seed capital, so it wasn't there before, so they

came out with this new angel fund thing, the sponsors of this bill came out with this whole mirror image but for angel funds. Now, since we've already done all that, we don't need this bill except in the process of doing that, and realizing angel funds are LLP's or LLC's is the way they are organized, the Tax Dept and the Dept of Commerce saw this loophole and that's where this amendment came from.

Rep. Headland: I have to agree with Rep. Owens on this particular one, if we don't pass this bill now, angel funds can invest in out of state companies, correct.

Rep. Owens: That's my understanding.

Rep. Headland: And if we do pass it, they will be limited to ND companies.

Rep. Owens: The credit will be limited to the actual dollar amount for those investors that are ND residents that invest in ND companies.

Rep. Headland: Then I think I have to resist the Do Not Pass motion.

Rep. Grande: The amendment that we put on, it eliminated the fiscal note, right.

Rep. Belter: Yes.

Rep. Headland: So what you're saying is that if we actually pass the bill, we are actually tightening up the rules from the standpoint that in order to get these tax credits, investments have to be made here in ND.

Rep. Owens: To a qualifying business as defined by the current Seed Capital rules and current Century Code, and a qualifying business refers to a ND company or business that you are investing in.

Rep. Belter: From that standpoint, I will be resisting the motion also.

Rep. Schmidt: The reason that they brought the angel fund in, then was so that they could invest out of state.

Rep. Owens: The reason they brought in the whole angel fund bill is because, earlier in the session, we added passthrough entities and corporations to the Seed Capital. It wasn't there before, so they didn't have an avenue, so they brought at the beginning of the session, passthrough entities weren't part of that. That's my understanding, so they brought this bill so angel funds could invest, pools of people could then invest in qualifying businesses. Now it's true that they wanted the original bill, which everybody had problems with, even the Senate said 51% of the investment in ND businesses, and the Senate changed it to 100%. Then it came over here and of course, they're saying if it is 100% we can't do anything with it, because of the way it is written. Now this hog houses it too literally, and of course it had a cap of \$5 million dollars so that added the potential of \$5 million expense to the state. Now, what we've done with this amendment, and the way the bill is now, is it simply amends it, the word angel fund, which is neither here nor there now with the passthrough entities are part of the seed capital, but it amends that onto that, and it establishes a paragraph that restricts that the credit, when provided during an investment, must be passed through the entity to the individual investor and the only investor that can take it, is a ND resident for a ND qualified business because that's what Seed Capital restricts it too anyway, and then it turns around and has to be equally divided based on their percentage of participation.

Rep. Schmidt: I believe if we kill the bill, then they can still go on the seed capitol.

Rep. Owens: Yes.

Rep. Schmidt: Then I have to change my vote.

Rep. Weiler: In light of the recent comments, I withdraw my motion for a Do Not Pass.

Rep. Drovdal: I withdraw my second.

Rep. Headland: I move a Do Pass as amended.

Rep. Pinkerton: Second.

Rep. Belter: Any further discussion. Clerk will call the roll for a Do Pass as amended on SB 2224.

10 YES 4 NO 0 ABSENT DO PASS AS AMENDED CARRIER: Rep. Headland

March 13, 2007

**House Amendments to Engrossed SB 2224 (70255.0201) - Finance and Taxation
Committee 03/13/2007**

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to create and enact a new subsection to section 57-38.5-03 of the North Dakota Century Code, relating to the eligibility for the seed capital investment tax credit for investments made by an angel fund; to amend and reenact subsection 6 of section 57-38.5-01 of the North Dakota Century Code, relating to the definition of taxpayer for purposes of the seed capital investment tax credit; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Subsection 6 of section 57-38.5-01 of the North Dakota Century Code is amended and reenacted as follows:

6. "Taxpayer" means an individual, estate, or trust or a corporation ~~or~~, passthrough entity, or an angel fund. The term does not include a real estate investment trust.

SECTION 2. A new subsection to section 57-38.5-03 of the North Dakota Century Code is created and enacted as follows:

An angel fund that invests in a qualified business must be considered to be the taxpayer for purposes of the investment limitations in this section. The amount of the credit allowed with respect to an angel fund's investment in a qualified business must be determined at the angel fund level. The amount of the total credit determined at the angel fund level must be allowed to the investors in the angel fund in proportion to the investor's respective interests in the fund. An angel fund that is subject to the tax imposed under chapter 57-38 is not eligible for the investment tax credit under this chapter.

SECTION 3. EFFECTIVE DATE. This Act is effective for taxable years beginning after December 31, 2006."

Renumber accordingly

Date: 3-13-07
Roll Call Vote #: 2224 #1

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO.

House _____ Finance & Tax _____ Committee

Check here for Conference Committee

Legislative Council Amendment
Number _____

Action Taken Do Pass As Amended

Motion Made By Rep. Owens Seconded By Rep. Headland

Representatives	Yes	No	Representatives	Yes	No
Chairman Belter		✓	Rep. Froelich		
Vice Chairman Drovdal		✓	Rep. Kelsh	✓	
Rep. Brandenburg		✓	Rep. Pinkerton	✓	
Rep. Froseth	✓		Rep. Schmidt		✓
Rep. Grande	✓		Rep. Vig		✓
Rep. Headland	✓				
Rep. Owens	✓				
Rep. Weiler					
Rep. Wrangham		✓			

Total (Yes) 5 No 6

Absent 3

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:
Failed

Date: 3-13-07
Roll Call Vote #: 2224 #2

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO.

House _____ Finance & Tax _____ Committee

Check here for Conference Committee

Legislative Council Amendment
Number _____

Action Taken Do Not Pass As Amended

Motion Made By Rep. Weiler Seconded By Rep. Drovdal

Representatives	Yes	No	Representatives	Yes	No
Chairman Belter			Rep. Froelich		
Vice Chairman Drovdal			Rep. Kelsh		
Rep. Brandenburg			Rep. Pinkerton		
Rep. Froseth			Rep. Schmidt		
Rep. Grande			Rep. Vig		
Rep. Headland					
Rep. Owens					
Rep. Weiler					
Rep. Wrantham					

Total (Yes) - No _____

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

Withdrawn

Date: 3-13-07
 Roll Call Vote #: 2224 #3

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO.

House _____ Finance & Tax _____ Committee

Check here for Conference Committee

Legislative Council Amendment
 Number _____

Action Taken Do Pass As Amended

Motion Made By Rep. Headland Seconded By Rep. Pinkerton

Representatives	Yes	No	Representatives	Yes	No
Chairman Belter	✓		Rep. Froelich		✓
Vice Chairman Drovdal		✓	Rep. Kelsh	✓	
Rep. Brandenburg	✓		Rep. Pinkerton	✓	
Rep. Froseth	✓		Rep. Schmidt	✓	
Rep. Grande	✓		Rep. Vig		✓
Rep. Headland	✓				
Rep. Owens	✓				
Rep. Weiler	✓				
Rep. Wrangham		✓			

Total (Yes) 10 No 4

Absent 0

Floor Assignment Rep. Headland

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2224, as engrossed: Finance and Taxation Committee (Rep. Belter, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (10 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING). Engrossed SB 2224 was placed on the Sixth order on the calendar.

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to create and enact a new subsection to section 57-38.5-03 of the North Dakota Century Code, relating to the eligibility for the seed capital investment tax credit for investments made by an angel fund; to amend and reenact subsection 6 of section 57-38.5-01 of the North Dakota Century Code, relating to the definition of taxpayer for purposes of the seed capital investment tax credit; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Subsection 6 of section 57-38.5-01 of the North Dakota Century Code is amended and reenacted as follows:

6. "Taxpayer" means an individual, estate, or trust or a corporation or, passthrough entity, or an angel fund. The term does not include a real estate investment trust.

SECTION 2. A new subsection to section 57-38.5-03 of the North Dakota Century Code is created and enacted as follows:

An angel fund that invests in a qualified business must be considered to be the taxpayer for purposes of the investment limitations in this section. The amount of the credit allowed with respect to an angel fund's investment in a qualified business must be determined at the angel fund level. The amount of the total credit determined at the angel fund level must be allowed to the investors in the angel fund in proportion to the investor's respective interests in the fund. An angel fund that is subject to the tax imposed under chapter 57-38 is not eligible for the investment tax credit under this chapter.

SECTION 3. EFFECTIVE DATE. This Act is effective for taxable years beginning after December 31, 2006."

Renumber accordingly

2007 TESTIMONY

SB 2224

**My name is Steven B. Mercil - CEO
RAIN Source Capital
1600 University Ave. W. Suite 401, St. Paul, MN 55104**

I would like to thank you for allowing me to testify on SB2224. My name is Steve Mercil, President/CEO of RAIN Source Capital, Inc. RAIN Source® Capital, Inc. is a 501(c) 3 corporation with a mission to build the capacity for making equity investments by forming and operating a network of equity funds in areas underserved by the traditional equity capital markets.

RAIN Source Capital builds local capacity to make equity investments in local businesses by organizing RAIN funds in communities. RAIN funds are a series of formal investment funds that pool the intellectual and financial resources of accredited individual and institutional investors. RAIN Funds provide seed and growth equity capital for emerging companies in these communities. Currently RAIN Source Capital has established 20 RAIN funds in five states representing approximately \$20 million in capital. In North Dakota four RAIN Funds have been established with 60 members and over \$3 million in capital commitments. These funds have made investment commitments of \$450,000 in 6 companies and are currently in the process of analyzing 17 additional investments.

An early stage company typically receives its equity financing from individual investors, A.K.A "angel investors". Angel investors are experienced business people that are willing to put their own time and money into supporting an entrepreneur. Historically in the United States angel investors finance more than 10 times the number of firms as institutional venture capital funds. Angel investors provide the bridge to traditional forms of financing.

Benefits of having an Angel Fund in a community include:

1. Leverages other financing options for businesses,
2. Helps attract technology and information service companies,
3. Spurs entrepreneurship and innovation,
4. Helps create and maintain quality jobs and
5. Diversifies the community's economic base.

RAIN Source Capital demonstrated the community's benefits of its program in a 2004 survey that showed companies paid wage and benefits of about \$50,000 per employee and employed about 30 people per company.

However barriers exist for entrepreneurs raising capital from angel investors:

1. Angel investors are difficult to locate, because most prefer to remain anonymous;
2. Often angel investors lack sufficient time and expertise to fully evaluate a technology opportunity;
3. Individually, angel investor's lack the capital to fully support the growth of a start-up company;
4. Multiple investors means multiple terms and multiple agreements;
5. Poor agreements hinder the ability to raise money in the future.

These barriers limit the growth of a business.

SB2224 will help lower these barriers by stimulating the formation of Angel Funds:

1. Equity capital will be identifiable and available to entrepreneurs
2. Entrepreneurs will have access to many investors through a manageable process allowing for more timely closing of agreements
3. Funds will enable angel investors to leverage capital, expertise, and time resulting in a thorough investment process
4. Funds will remove the confusion and delays caused by multiple terms and multiple agreements
5. Funds will encourage and create local ownership, local management, and local decisions;
6. Funds will be sustainable investment funds that will outlive the benefit of the tax credit.

An example of the type of company in North Dakota that seeks and needs access to angel investors is Gruby Technologies, Inc., Bismarck, ND. Gruby Technologies is an innovative health care technology company that focuses on improving patient care using digital tools provided to medical professionals. Northern Plains Investment, LLC, a Bismarck RAIN Fund worked with the company for approximately a year to refine its business plan before making an investment in the summer of 2006. Currently the FM Angel Investment Fund, Fargo, ND is evaluating the company for an investment. These are examples of the network of angel investors and funds working together to support emerging growth companies in North Dakota.

SB2224 will provide a catalyst to form locally based equity funds in North Dakota. These types of funds are critical to further develop North Dakota companies and communities.

**Testimony to the Senate Finance & Taxation Committee
Wed. Feb 7, 2007**

Bruce Gjovig, UND Center for Innovation

4200 James Ray Dr, Grand Forks, ND 58203

701-777-3134, Bruce@innovators.net

For SB 2224 to create a 45% state investment tax credit for investors in angel funds to match the 45% tax credit for individual investors in qualified businesses.

1. Goal of SB 2224 is to target the right ventures (growth) and the right angels (multiple investments) to have the most economic impact to justify the tax credits. Angel funds utilize collective wisdom, expertise and judgment to draw more investors (increased seed capital).
2. SB 2224 extends the existing 45% state investment tax credit to pooled angel funds. Both are needed to meet the needs of early-stage capital for venture growth. There are 11,600 millionaires in North Dakota (Impact Foundation 2005)
3. More than 20 states offer an income tax credit to encourage private investment to create and grow early-stage ventures. Will build capacity to make equity investments.
4. In 2006, three Rural Accredited Investor Network (RAIN) funds were formed in Bismarck, Fargo and Grand Forks. Expect 2 to 5 more funds in other cities over next two years. Over 60 angel investors committed more than \$3 M in pooled funds, and made two North Dakota investments already. Our 3 funds work with 16 other angel funds in 5 upper plains states (19 total) all affiliated with RAIN Source Capital of St Paul, MN. Other funds can/will participate in North Dakota deals increasing our equity capital sources (but not share in tax credit). Funds may share deal flow, due diligence, expertise, capital, and monitoring for larger equity investments.
5. Early-stage angel capital is necessary to accelerate innovation, start and grow entrepreneur ventures and create the jobs we need. One in five Americans works for an entrepreneur or is an entrepreneur in a venture that is less than 5 years old. Angels offer patient money that is higher risk with a longer horizon for liquidity which is why public and private venture prefers later-stage venture deals. The higher risk and long horizons define the need for this tax incentive.
6. Nationwide for each startup (200-250) that secures venture capital annually over 150 startup companies (50,000) secure angel investment. Less than 1 in 10 startups receive angel funds as few provide high enough return on investment (ROI) from growth.
7. According to the Center for Venture Research, 227,000 angel investors invested more than \$23 billion into new ventures in 2005, the last year data are available, creating 198,000 new jobs, or 4 new jobs per angel investment.
8. Incentive should add \$1 M or more in seed capital per year in North Dakota from wide network of angel investors. Each Angel Fund will invest in ten or more ventures to develop an investment portfolio (no more than 10% in any one deal). Since 2002, 1014 angels have invested \$36 M with \$10 M in allowable credits. This does include ag investment credits as well.
9. The bill avoids creation of a new bureaucracy for administration, making the tax credit easy to administer for accredited angel investors
10. Angels are more than funding: also expertise, coaching, contacts, and problem solvers.

Most of economics can be summarized in four words: **'People respond to incentives. The rest is just commentary.'** Steven Landsburg, the Armchair Economist, U of Rochester (NY)

Senate Finance and Taxation Committee – SB 2224

Wednesday, February 7, 2007 10:00 AM

Mr. Chairman and members of the Senate and Taxation Committee. I wish to thank you for the opportunity to speak in support of Senate Bill 2224.

My name is Raymond Gruby and I am the CEO of Gruby Technologies, located in Bismarck ND. Before my present position, I practiced orthopaedic surgery in Bismarck at the Bone and Joint Center since 1977.

Based in Bismarck, ND, Gruby Technologies, Inc. is a leading developer of real-time information solutions for the healthcare market. The company's flagship offering, C-Freedom™, combines innovative location-sensing hardware, handheld PDAs and hosted software applications to deliver significant improvements in organizational efficiency, patient safety, and provider effectiveness. C-Freedom is currently being marketed and sold to hospitals, clinics, long-term care, and assisted living facilities throughout the United States and Canada.

Our company implemented our first site in rural North Dakota in July, 2004. Having proved the concept of delivering first grade medical care from the provider's hand we begin our search for capital. Of immense importance, was the ND seed capital investment tax credit. The North Dakota citizens that invested in our company considered this crucial in investing in a start-up company.

As a company that has had to raise capital through individual angel investors, we can assure you this is an incredibly challenging undertaking, particularly in North Dakota where venture capital has historically been much more scarce than in other areas of the

country. Regardless of how great of company and idea an entrepreneur may have, finding qualified angel investors that prefer anonymity and working through the investment process is enormously challenging without structure and an established process to guide both parties through the steps.

The RAIN fund concept provides that structure and is a much more efficient method of bringing growing companies and angel investors together. We have been introduced to over 40 investors that we would not have been otherwise, and those investors would not have known that we exist and are seeking capital. Very likely, the dollars they have available to invest would flow to out of state companies simply because there was no catalyst to bring them together with companies like ours.

We now have first hand experience with seeking angel investors both independently as well as through the RAIN funds. The Northern Plains Investment Fund (Bismarck's RAIN Fund) has already invested in Gruby Technologies, and we are in active discussions with the Fargo RAIN fund for the same. We can attest that the RAIN funds achieve the objectives they set forth, and we firmly believe they will be essential to providing more companies like ours the necessary capital needed to successful grow and create great jobs in North Dakota.

SB 2224, allowing a 45% tax credit for investments in an angel fund (ie RAIN fund) where 51% of the investments need to be in North Dakota, would be extraordinarily useful in placing good companies in fertile soil for future growth.

I encourage the passage of SB 2224 and would appreciate questions at this time.



Testimony of Dana Bohn

Lobbyist

**Economic Development Association of North Dakota
SB 2224**

Mr. Chairman and members of the committee, my name is Dana Bohn. I am here today to testify on behalf of the Economic Development Association of North Dakota (EDND) in support of Senate Bill 2224.

EDND is the voice of the state's economic development community and provides networking for its 80 members, which include development organizations, communities, businesses and state agencies. Our mission is to increase economic opportunities for residents of the state by supporting primary sector growth, professionalism among economic development practitioners and cooperation among development organizations. We are asking that you support SB 2224 and thus, North Dakota's economic growth.

We are all aware of the efforts and programs we have developed over the years to spur economic development in our state. We see SB 2224 as a logical extension of other programs that have proven to be very effective tools for North Dakota communities and their developers in economic expansion.

All across the state, entrepreneurs have new ideas for business opportunities that would spur economic activity within the community and the state. Such entrepreneurs, however, lack the money and expertise needed to make those ideas become a reality. Angel funds could become essential tools by providing not only the financial support, but the wisdom, expertise, judgment and research needed to help get those ideas and those new businesses off the ground. Throughout the nation, angel funds have become a primary source for supporting these ventures, but currently, North Dakota lacks a strong or large enough angel fund to accelerate such innovation and venture growth within the state. The tax credit proposed in SB 2224 could provide the incentive needed to entice investors to help start and develop entrepreneurial ventures, especially on a local level.

Already, 227,000 angel investors have invested more than \$23 billion into new ventures in 2005, creating 198,000 new jobs in the nation. On a more local level, North Dakota has several programs that have created successful outcomes, including the renaissance zone program, which provides a property tax rebate and a tax credit. By providing a similar tax credit for investment in angel funds, we anticipate that businesses would be more willing to further support venture growth by investing on a local level with people they know. Their investment will lower risk, encourage innovation, and create economic and employment opportunities within North Dakota communities.

EDND believes SB 2224 will aid development in North Dakota and build on a successful program that works. We urge a do pass. I would be happy to answer any questions.

TESTIMONY TO THE
SENATE FINANCE & TAXATION COMMITTEE
SENATE BILL 2224
BOB HUMANN – SVP OF LENDING
BANK OF NORTH DAKOTA
FEBRUARY 7, 2007

The amendment in Section 1 relates to the New Venture Capital Program (Program). This change allows the Program to invest in North Dakota based venture capital entities that may invest in companies outside of North Dakota. Under this Program, Bank of North Dakota can make equity investments or fund subordinated debt in expanding or early-stage companies up to a Program maximum of \$10,000,000. The Program has made 3 separate commitments of \$50,000 in RAIN Funds in Bismarck, Fargo, and Grand Forks. The RAIN Funds are separate community based venture capital groups consisting of individual local angel investors managed by RAIN Source Capital of St. Paul, Minnesota.

The three separate community based RAIN Funds will invest mostly in North Dakota companies, but also have the ability to look at investing in companies outside of North Dakota as a result of referrals from out of state RAIN Funds. On a percentage basis, the three RAIN Funds project an investment mix of 75% North Dakota companies and 25% outside of North Dakota Companies. Based on a total Program commitment of \$150,000 times 25%, only \$37,500 of the \$10,000,000 Program would potentially be invested in outside of North Dakota companies.

Because of the possibility of the RAIN Funds investing in out of North Dakota companies, the bank cannot purchase membership units of the RAIN Funds. Instead, the bank has been forced to enter into separate "co-investment" agreements for each of the individual RAIN fund investments. This arrangement is very cumbersome adding both complexity and expense to a very small transaction. The amendment will allow for the purchase of membership units and eliminate the need for separate "co-investment" documentation with each of the RAIN funds.

Your approval is recommended.

North Dakota

nd.gov: Official Portal for
North Dakota State Government
[ABOUT BND](#) | [CONTACT US](#) | [NEWS & EVENTS](#) | [SITE MAP](#) | [HOME](#)

INVESTMENTS & TRUST

LENDING SERVICES

RETAIL & OPERATIONS

STUDENT LOANS

MY ACCOUNT

New Venture Capital Program

Program available Aug. 1, 2003 through July 31, 2009)

The New Venture Capital Program is an innovative financial program that provides flexible financing through debt and equity investments for new or expanding businesses in the state of North Dakota. BND can fund rapidly growing companies which require equity funding.

The Bank may provide funding for early stage companies which can show clear proof of completed product development and market acceptance as evidenced by growing sales. The Bank will invest in a variety of technologies and types of businesses, including North Dakota Department of Commerce strategic target industries. BND will also invest in growth and later stage manufacturing, service and businesses with profitable growth potential.

Qualifying Requirements

Business Criteria –

- North Dakota industries or businesses that will benefit the state and/or local communities within the state.
- A successful and experienced management team.
- Cooperative management predisposed to communicate and work closely with outside investors toward common goals.
- A market with favorable size, growth and competitive characteristics.
- Adequate capital being raised to support operating objectives.
- Companies working to commercialize university-developed technology within the North Dakota University System.

Loan Limit –

The New Venture Capital Program will invest up to \$300,000 with appropriate capital structures favoring the following investment instruments:

- Subordinated debt with warrants to acquire common stock.
- Preferred stock with warrants to acquire common stock.
- Common stock.

Use of Proceeds –

BND's capital may be used to develop production and increase sales growth and management capabilities.

Application Process –

[New Venture Capital
Program Application](#)
[Recipient Report](#)
[State Grantor Report](#)
[Business Incentive Agreement](#)

For more information about this program or other Bank of North Dakota programs, contact:

Bank of North Dakota

Real-Time Information Solutions for Healthcare

C-FREEDOM

Patient/Resident and Staff Locating

Asset Tracking

of Care Charting

Wireless Nurse Call

Positive Patient Identification

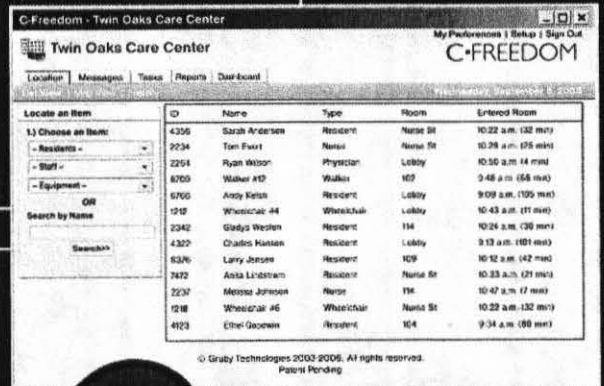
Access Control and Wander Protection

Process Optimization and Automation

Voice and Text Messaging

Mobile Notification and Escalation

Performance Reporting and Analytics



C-Freedom Delivers Results You Can Bank On

When considering any technology project, you need to feel confident you will reap a solid return on your investment – both in hard dollars as well as “soft” benefits. C-Freedom immediately begins providing a return by replacing or augmenting traditional nurse call systems, communication systems, wander prevention systems, and security monitoring systems. Then, it keeps on delivering year after year by increasing staff productivity by 15-20%, increasing patient throughput in EDs and clinics by up to 39%, increasing asset utilization by up to 50%, and more.



Want to find out how C-Freedom can improve your organization's bottom line? Contact us today for a free ROI Analysis and we'll show you.

System Features

Hosted Application

Limited IT resources? No problem. Dramatically decrease your maintenance costs and hassles by shifting the burden to us. We will handle your software updates, data backups and storage, server reliability, and day-to-day support at our world-class hosting center.

Multi-Source Support

Whether you need RFID and IR sensors for room-level patient and staff locating, or you want to use 802.11 to track the general location of your assets, C-Freedom allows you to manage it seamlessly via one simple-to-use interface.

Anytime, Anywhere Access

With C-Freedom, you're never far away because its web-based interface and hosted application architecture allow you to access the same exact information whether you are at your desk, at home, or traveling.

Rules Engine

Whether you want to control access based on badge authentication or clear a nurse call when a care provider enters the room, you can monitor system events and define an automatic response to take place each time the event occurs with the C-Freedom Rules Engine.

Multi-Facility Support

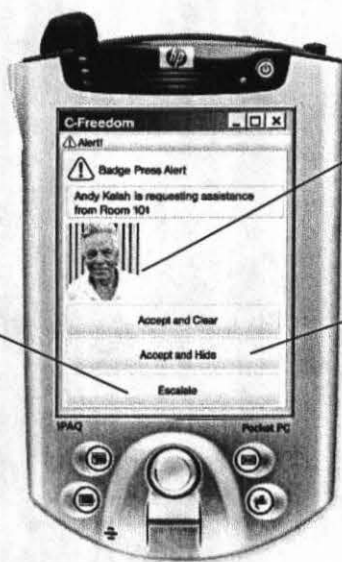
C-Freedom provides true enterprise visibility, allowing you to find staff, patients, or assets from any facility. C-Freedom also enables you to benchmark, trend, and compare facility and departmental performance metrics next to one another.

Integration-Ready

C-Freedom was designed for seamless integration with third-party applications, such as electronic health records, practice management systems, billing and financial systems, or any HL7 compliant software program.

Software Auto-Updates

Never worry about upgrades again. C-Freedom's auto-update feature ensures your entire system is always up-to-date with the latest software releases without any intervention from your staff.



Receive alerts with name, location, and photo.

Large touch buttons allow for one-handed operation.

Monitor and verify completion of tasks by staff member or area.

Review up-to-the-minute reports and key performance metrics throughout the day.

to accept or escalate available.

Send voice or text messages to one or more staff instantly.

Review the recent activity of a patient, staff, asset, or room via the History link.

C-Freedom - Twin Oaks Care Center

Twin Oaks Care Center

My Preferences | Setup | Sign Out

C-FREEDOM

Location | Messages | Tasks | Reports | Dashboard

Last View | Map View | History

Wednesday, September 6, 2006

Locate an Item

1. Choose an Item:

- Residents -
- Staff -
- Equipment -

OR

Search by Name

Search>>

ID	Name	Type	Room	Entered Room
4356	Sarah Anderson	Resident	Nurse St	10:22 a.m. (32 min)
2234	Tom Evert	Nurse	Nurse St	10:29 a.m. (25 min)
2264	Ryan Wilson	Physician	Lobby	10:50 a.m. (4 min)
8709	Walker #12	Walker	102	9:48 a.m. (66 min)
6766	Andy Kelsh	Resident	Lobby	9:09 a.m. (105 min)
1212	Wheelchair #4	Wheelchair	Lobby	10:43 a.m. (11 min)
2342	Gladys Weston	Resident	114	10:24 a.m. (30 min)
4322	Charles Hanson	Resident	Lobby	9:13 a.m. (101 min)
6376	Larry Jensen	Resident	109	10:12 a.m. (42 min)
7472	Anita Lindstrom	Resident	Nurse St	10:33 a.m. (21 min)
2237	Melissa Johnson	Nurse	114	10:47 a.m. (7 min)
1218	Wheelchair #6	Wheelchair	Nurse St	10:22 a.m. (32 min)
4123	Ethel Goodwin	Resident	104	9:34 a.m. (80 min)

© Gruby Technologies 2003-2006. All rights reserved.
Patent Pending

Search for a specific person or asset via dropdown list or name.

Locate any patient, resident, or staff person at a glance.

Monitor for excessive patient wait times and resident inactivity.

C-FREEDOM

Instant Access to
Time-Sensitive Information

“Are my memory care residents safe?”

“Where is the nearest available IV pump?”

“How can I quickly communicate a message to all the staff?”

“Where did my patient go?”

In today's healthcare environment, your care providers and support staff need to have immediate answers to questions such as these in order to maximize their productivity while providing the highest quality of care possible. C-Freedom™ – a real-time location, communication, and notification solution for healthcare organizations – empowers staff by putting this information in the palm of their hand.

C-Freedom's value is derived from an innovative blend of handheld, tablet, and desktop computers, real-time locating equipment, and a robust software suite that together provide an impressive array of capabilities that can operate as a stand alone system or be integrated with your current IT enterprise systems.



Patient/Resident and Staff Locating

Stop combing the halls to find a patient, resident, or staff member when you need them. Simply glance at your PDA or desktop screen to find them instantly.

Asset Tracking

Eliminate time wasted looking for wheelchairs, IV pumps, patient lifts, and other high-value items while improving asset utilization, decreasing purchase and lease costs, and streamlining maintenance.

Point of Care Charting

Document task completion at the bedside or the exam room to improve efficiency and verify timely administration of care. Seamlessly integrate the activities to and from your EHR or billing system.

Wireless Nurse Call

Boost patient and resident satisfaction by increasing nurse call coverage from 2% to over 95% of your facility. C-Freedom enables increased mobility with assurance that assistance is only a button press away.

Positive Patient Identification

Minimize costly and potentially deadly human error when administering medications or other treatment. Glance at your PDA when you enter a room to automatically verify the patient or resident by name and photo.

Access Control and Wander Protection

Integrating C-Freedom with your door locks enables badges to serve as access control devices, preventing unauthorized entry to sensitive areas and prohibiting the cognitively impaired from unsupervised wandering.

Process Optimization and Automation

Increase efficiency and reveal bottlenecks that sap productivity and impede patient flow. Use C-Freedom to automate tasks such as updating room status, issuing housekeeping requests, or triggering notifications and alerts.

Voice and Text Messaging

Whether you need to communicate with one doctor or your entire staff, C-Freedom allows you to send and receive voice or text messages instantly from your PDA or desktop computer anytime, anywhere.

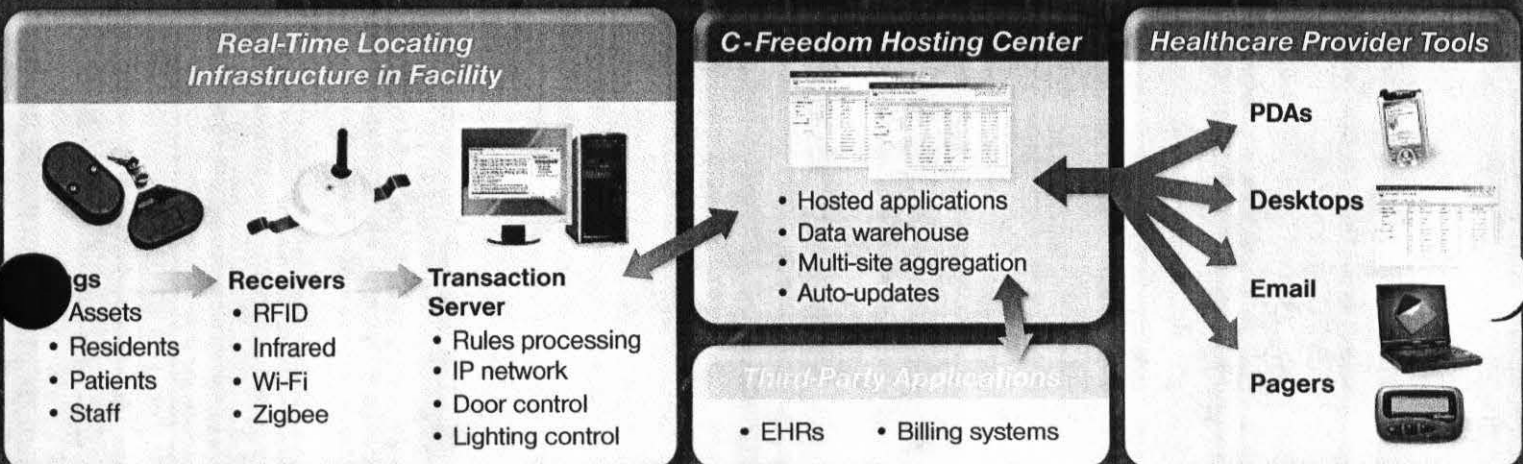
Mobile Notification and Escalation

Feel assured that help requests from admitted patients/residents or an automated notification generated by a security breach are either responded to by the assigned staff person or escalated to others in a timely fashion.

Performance Reporting and Analytics

Analyze data using an array of standard reports or create reports customized to your facility and operations. Trend and compare key performance metrics among facilities, areas, shifts, or individual staff members.

How C-Freedom works...



C-Freedom Solutions

Because various healthcare settings have unique workflow, notification, reporting needs, C-Freedom solutions include tailored applications to suit each specific environment.

C-Freedom AC™

FOR ACUTE CARE

- Facility-wide Asset Tracking
- Hospital ED
- Hospital OR
- Nurseries

Additional features:

- Electronic greaseboard
- Automatically updated room status (occupied, available, dirty, etc.)
- View triage level and chief complaint
- Find a patient's lab status
- View assigned physician and RN
- Completed nurse assessments registered
- Integrated OR process milestones and schedule
- Status screens for family waiting rooms

C-Freedom AM™

FOR AMBULATORY CARE

- Outpatient Clinics
- Specialty Clinics
- Physician Practices
- Other Outpatient Settings

Additional features:

- Physicians can submit requests to lab, x-ray, physical therapy, and RNs
- Optimized workflow for maximum patient throughput
- Missed tasks monitoring and notification
- Mobile dictation
- Third-party referral management
- Patient wait-time monitoring and notification
- Encounter activity reports by patient, staff member, department, or room

C-Freedom LTC™

FOR LONG TERM CARE

- Skilled Nursing
- Assisted Living
- Rehabilitation
- Memory Care

Additional features:

- Activities of Daily Living completion tracking
- Resident activity participation tracking
- Easy investigation of complaints
- Improved capture of reimbursable ancillary charges
- Automatic assignment of careplan tasks to staff (baths, medicine administration, etc.)
- Notifications based on resident confrontations, lack of movement, proximity to external doors, leaving bed, and more

Whether you're looking for a best-of-breed mobile charting and communication system, or a more comprehensive real-time information and locating solution, C-Freedom has the right package for you. Each of the solutions described above is available in two packages - Standard and Professional - and is designed to fit your needs and your budget.

Standard Package

Completely hosted software solution

- Point of Care Charting
- Process Optimization and Automation
- Voice and Text Messaging
- Mobile Notification and Escalation
- Basic Reporting and Analytics

Professional Package

Everything included in the Standard Package plus...

- Patient/Resident and Staff Locating
- Asset Tracking
- Wireless Nurse Call
- Access Control
- Advanced Reporting and Analytics



Customer Profile

Sprucedale Care Centre

"C-Freedom saves each of my staff 45 to 60 minutes every shift by allowing them to receive notifications, exchange messages, check-off tasks, and find residents and equipment instantly as they move about. It is an essential part of the way we deliver high-quality care. We are able to provide that additional hands-on care that our residents deserve."

**Darren Micallef, Administrator
Sprucedale Care Centre**

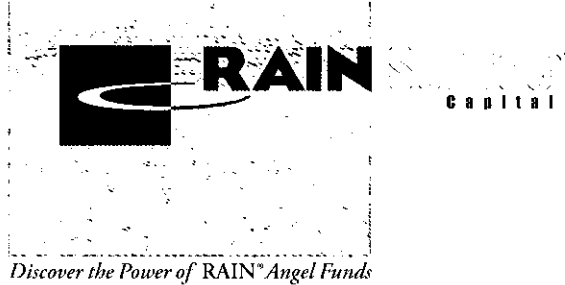
To find out more about C-Freedom and how it can benefit your organization, contact Gruby Technologies or an authorized reseller today.



Gruby Technologies

www.grubystechnologies.com

1120 College Drive, Suite 100, Bismarck, ND 58501
phone: 701-223-9113, fax: 701-223-4255
sales@grubystechnologies.com



RAIN Source Capital: A Network of RAIN Angel Funds

Description: RAIN Source Capital is a multi-state network of RAIN[®] *funds* that works with angel investors who are interested in supporting growing companies. RAIN SourceSM helps bring together like-minded angel investors to form individual RAIN *funds* ~ and then provides these funds with capital, a process for due diligence, legal templates, management support, access to deal flow and other resources.

RAIN *funds* share expertise, deals and experience between and among RAIN Source Capital's multi-state network to support growing companies throughout the area.

RAIN Fund Locations:

RAIN Source Capital is working with angel investors in **Minnesota, Iowa, North Dakota, South Dakota, Montana, Idaho, Washington, Oregon and other areas**. RAIN Source Capital expects to have another 10 RAIN *funds* formed in the next year. There are currently 18 RAIN *funds* located in:

- Minnesota - based in Alexandria, Grand Rapids, Mankato, Mpls/St. Paul, Montevideo, St. Cloud, Willmar, and Worthington;
- Iowa - based in Cedar Falls, Mason City and Rock Rapids; and
- North Dakota - based in Grand Forks and Fargo; and
- South Dakota - based in Sioux Falls.

Size and Focus of

RAIN Funds: RAIN *funds* range in size from seven to 61 members, who have pooled anywhere from \$500,000 to \$2 million.

Each individual RAIN *fund* determines what industry it will focus on, and the type and level of financing to provide, based on the interests and expertise of its members. The group uses the RAIN *fund's* proven model, with support from RAIN Source Capital, for identifying potential deals, performing due diligence, making investment decisions and monitoring those investments.

Investments: The RAIN *fund* network currently has more than \$20 million invested in 40 companies.

October 2006



Initiatives Supporting the Network of RAIN Angel Funds

RAIN Source Capital provides angel investors with resources and expertise developed to support the network of RAIN angel funds. Some of the initiatives benefiting angel investors are:

RAIN®street:

RAINstreet is RAIN Source Capital's web-based deal flow and due diligence tool available to members of our RAIN funds. Members receive a password that allows them to go online to learn about companies seeking financing. In addition, members can indicate if they are willing to provide assistance, based on their areas of expertise, to fellow RAIN funds as they are doing due diligence on companies. This enables RAIN funds to leverage the experience and expertise between and among the network of RAIN funds.

RAIN®makers Conference:

RAIN fund members meet annually at RAIN Source Capital's RAINmakers Conference to hear national and regional speakers, share strategies, and build on the success and experience of individual RAIN funds. The two-day, invitation-only conference provides both structured workshops and informal networking between new and established RAIN fund members. Angel investors who are interested in launching a RAIN fund in their area are encouraged to attend.

In 2006, the RAINmakers conference featured national keynote speaker Rich Karlgaard, publisher of *Forbes Magazine*, and was held September 28-29 in Mankato, Minn. The 2007 conference will be held on September 27-28 in St. Cloud, Minn.

Ruvelson Fellowship:

RAIN Source Capital has established a Ruvelson Fellowship to support the next generation of equity investors and community business leaders.

Established in honor of Alan K. "Bud" Ruvelson, considered the grandfather of the venture capital industry, the Fellowship provides students with training in the fundamentals of private equity investing and venture capital. In addition, fellows will work side-by-side with angel investors and investment professionals, learning how to build companies and communities for the future. The year-long Fellowship includes a \$10,000 award.

For more information on these and other initiatives provided by RAIN Source Capital, call (651) 632-2140.



Discover the Power of RAIN® Angel Funds

RAIN Source Capital: An Overview for Angel Investors

“RAIN Source Capital provides a solid template that makes it possible for people who’d like to be active investors to step up to the plate. Through the RAIN *funds*, individual angel investors can share the expertise, the capital, the work, the risk and the financial and emotional rewards of supporting entrepreneurs, building growing companies, and having a positive impact on their community, as well as making money.”

~ John Reid, RAIN *fund* member

Launching a RAIN

Fund:

RAIN Source Capital works with interested angel investors to establish a RAIN® *fund* in their area. RAIN Source provides each RAIN *fund* with additional capital, legal templates, investment tools, management expertise, and financing experience. Each RAIN *fund* determines what industry it will focus on, and the type and level of financing it will provide, based on the interests and expertise of the fund members. Members of all the RAIN *funds*:

- share expertise, experience and deal flow across the network of RAIN *funds*. This enables funds to consider more investment opportunities and leverage the expertise available throughout the network.
- have access to RAIN® *street*, a web-based deal flow and due diligence tool, and
- meet annually at the RAIN® *makers* conference to hear national speakers, share strategies, and build on the success and experience of individual RAIN *funds*.

About RAIN Fund

Members:

RAIN *fund* members are accredited angel investors, typically defined as individuals with annual income exceeding \$200,000 and/or having a net worth of more than \$1 million.

Benefits to Angel

Investors: For angels trying to invest by themselves, the challenges can be daunting. Deal sourcing and reading plans are time consuming; due diligence may require locating and using outside experts – sometimes at a cost; and legal support can be expensive. RAIN Source Capital's RAIN *funds* remove those barriers, and enhance investor returns by:

1. Sharing capital, expertise and time with other RAIN *fund* members;
2. Increasing the quality of deal flow;
3. Ensuring thorough due diligence and monitoring;
4. Reducing transaction and monitoring costs;
5. Increasing capital available to sustain a company;
6. Enhancing opportunity for timely exits.

Benefits to

Communities: RAIN *funds* benefit communities by:

1. Creating a sustainable investment fund;
2. Providing a source of capital and expertise critical to early and high growth companies;
3. Helping to recruit and nurture technology companies;
4. Building the capacity for local wealth creation;
5. Growing businesses that create good jobs.

Contact us: To start a RAIN *fund* in your area, contact RAIN Source Capital at (651) 632-2140 or visit us on the web at www.rainsourcecapital.com.



capital

Discover the Power of RAIN® Angel Funds

RAIN Source Capital: An Overview for Companies Seeking Financing

“Angel investment groups can make an enormous difference in the number and quality of deals that angel investors can consider, as well as in the amount of potential capital available in a given region. Through their RAIN *funds*, RAIN Source Capital adds an excellent structure that makes investment options much more streamlined for angel investors. This also helps fill a huge capital gap for entrepreneurs.”

~ Marianne Hudson, Director of Angel Initiatives
Kauffman Foundation’s Angel Capital Education Foundation
Kansas City, Mo.

Who Can Apply

For Financing: Each RAIN® *fund* has its own focus that is determined by fund members, including, in some cases, a geographic focus. In general, emerging companies that need early stage capital, or financing to support expansions, turnarounds, ownership transitions and related growth opportunities, are eligible to be considered for financing. Ideal candidates for financing consideration are manufacturing and technology businesses that have already raised some capital from angel investors (family and friends), have the potential to become at least a \$10 million company in five years or less and have a competitive advantage in their industry. RAIN *funds* do not typically invest in retail, service, mining or timber operations.

Levels of

Financing: Through its network of RAIN *funds*, RAIN Source Capital has the ability to provide up to \$3 million in capital. Companies have the opportunity to be considered by more than one fund. Capital comes from a number of RAIN funds and others in the network.

The Process: Companies that would like to be considered for financing can contact RAIN Source Capital at (651) 632-2140. Initial screening involves providing preliminary information on our web-based system, RAIN® *street*. Companies selected for a next level of screening will be given the opportunity to present to a RAIN *fund*.

Timing: RAIN Source Capital works to provide timely feedback and expedite companies through the process. If a company is selected for financing, the

process typically takes 3 to 6 months from a company's initial inquiry until the first check is mailed.

Companies That Receive

Financing:

RAIN Source Capital offers competitive investment terms and conditions, commensurate with the geographic business environment. Companies that receive financing can be considered for follow-on funding by one or more RAIN *funds*.

RAIN Source Capital and the RAIN *funds* work to create, build and nurture solid growth companies. Together, we contribute strategic, financial and operational expertise to help grow your company.

Contact us: To inquire about financing opportunities, contact RAIN Source Capital at (651) 632-2140 or visit us on the web at www.rainsourcecapital.com.

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Organizing Angel Investment to Benefit Angels, Companies, and Communities

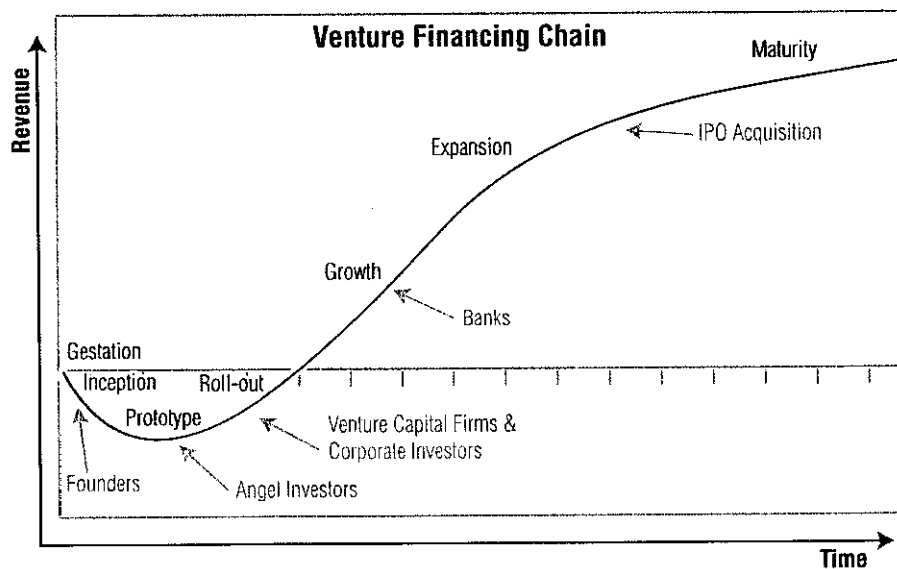
Steve Mercil

CEO, RAIN Source Capital

Across the country, thousands of promising small companies need financing and sound business counsel if they are to grow and meet their potential. Many of these companies are in rural communities not targeted by traditional venture capital—communities that could benefit enormously from the jobs, wealth creation, and quality of life that growing companies provide. These same communities are also often home to wealthy individuals who have an interest in investing their money in ways that provide a return and also contribute to their community.

The Role and Challenges for Angels

Angel investors are the largest private source of capital for early-stage entrepreneurs, and they are the most likely source of seed and early-stage capital. While venture capital is typically aimed at companies that are more developed and are ready for larger investment dollars (\$5 million or more), angel investors provide private financing for emerging growth companies that are too small to attract venture capital but too big to rely on funding from family or friends. Even though the amount is less than venture dollars (anywhere from \$50,000 to \$1 million or more), angel dollars often come at critical points in a company's development, enabling it to get past funding and growth hurdles in its early years.



Angel investors are defined as individuals with income exceeding \$200,000 or having a net worth of more than \$1 million. Our experience is that 60 percent or more of angel investors are often self-made, cashed-out entrepreneurs who have capital and business experience and are interested in helping other companies grow.

There are an estimated 20 million prospective angels nationwide, but only about 227,000 to 350,000 angels who are actively investing. The Center for Venture Research indicates that in 2005 angels invested \$23.1 billion in 49,500 companies.¹ And unfortunately for rural ventures, most of the active investors tend to be in major metropolitan areas.

According to the Angel Capital Education Foundation, approximately 90 percent of outside equity capital in seed/start-up companies comes from angel investors. Angels also invest more money in a greater number of companies than the venture capital community, and they have a better record of companies that go public than those invested in by the venture capital community. In addition to money, angels invest time and expertise in companies that can help them be more successful.

The challenges for angels trying to invest by themselves can be daunting. Deal sourcing and reading business plans are time-consuming; due diligence may require locating and using outside experts, sometimes at a cost; and legal support can be expensive. In addition, it requires time and expertise to monitor the investments and determine follow-on or exit strategies. One way to overcome those obstacles is to join a group of angel investors because members share the work, the expertise, the risks, and the rewards of investing.

RAIN Funds and the RAIN Fund Network

This intersection of growing companies, investment interest, and community needs has helped fuel the development of RAIN Source Capital, an organization that organizes, capitalizes, and manages groups of angel investors into RAIN angel funds. RAIN Source Capital is a growing multi-state network of RAIN® funds that works with angel investors who are interested in supporting growing companies. RAIN Source helps bring together like-minded angel investors to form individual RAIN funds, and then provides these funds with additional capital, a process for due diligence, legal templates, management support, access to deal flow, and other resources. In fact, RAIN funds share expertise, deals, and experience between and among the RAIN funds to support growing companies throughout the area.

RAIN Source Capital got its start in July 1998 as the Minnesota Investment Network Corporation, with initial capitalization from a quasi-state agency in Minnesota. The organization increasingly gained the interest and support of institutional investors and foundations, and led to expanding opportunities beyond its initial geographic focus of Minnesota. In early 2006, we became RAIN Source Capital, with a focus on developing RAIN funds in

¹ "The Angel Investor Market in 2005," Center for Venture Research, University of New Hampshire Whittemore School of Business and Economics. The report is available at: http://www.unh.edu/news/docs/CVR_2005.pdf.

Minnesota, Iowa, North Dakota, South Dakota, Montana, Oregon, Idaho, and Washington, with ongoing interest coming from other states.

As of November 2006, the RAIN network included 19 funds, with more than \$20 million invested in 40 companies. Funds range in size from seven to 61 members, and they have pooled anywhere from \$500,000 to \$2 million. Through RAIN Source Capital,

- members can co-invest with other funds, enabling funds to consider more investment opportunities and leverage the expertise available throughout the network
- members have access to RAIN[®]street, a proprietary Web-based deal flow and due diligence tool
- members meet annually at the RAIN[®]makers conference to hear national speakers, share strategies, and build on the success and experience of individual RAIN funds

The RAIN fund concept grew organically, based on the experience we gained from working in venture capital, seed funds, and economic and community development. More recently, two other models for working with groups of angel investors have emerged. The first is a club model, where people pay an annual fee and attend luncheons featuring presentations by pre-screened companies. Individual investors follow up with the companies they are interested in funding. The second model is the formation of a limited liability corporation (LLC) that is professionally managed. Members pay a fee to join, and a formal management team makes the investment decisions. RAIN Source Capital operates as a hybrid of these two approaches, even though it predates both of them.

The RAIN fund model offers several advantages. First, it allows us to bring small towns into the game of investing in a meaningful way. Essentially, our model is an example of what Thomas Friedman describes in his book *The World Is Flat*, as opportunities for the “small being able to act really big” and from anywhere—you don’t have to be in a big city to be an entrepreneur or an investor.

Second, because individual funds can tap into other funds in the entire network, they can leverage the broad base of intellectual and financial capital. That allows an investor with a \$100,000 commitment to have a network of 200 experts and many millions of dollars in capital support. In addition, experience has demonstrated that most RAIN fund members invest about the same amount of capital side-by-side in the local RAIN fund as they commit to their local fund. For example, a member who commits \$50,000 to a local RAIN fund will often also invest another \$50,000 side-by-side in deals their RAIN fund invests in. Now multiply that by 20 members, each of whom does the same thing. The result may be another \$1 million of leverage.

The process of forming a fund has three stages:

- **Formation**—potential members begin to develop trust, gain an understanding of the RAIN fund and angel investing concept, and establish fund leadership. Individual fund members must be accredited angel investors, with an average investment of anywhere from \$25,000 to \$100,000 in the fund.

- **Capitalization**—members develop the focus of their fund and raise initial capital. We require at least \$500,000 in capital before a fund can be launched.
- **Operation**—fund members start operating as a group and begin actively pursuing and reviewing potential deals.

Along the way, we have experienced a few obstacles in developing new funds. For example, before the stock market bubble burst in 2000, many investors felt they could make money in stocks and did not need to consider other options. Then, after the bubble burst, it took time for people to get back to the reality of what a normal return on investment looks like and what a normal timeline is for investing. So at least in the late 1990s, it was not the easiest environment presenting the message about RAIN funds. That's different today. There is a lot more understanding and interest in being an active investor and in having colleagues who share the work.

Monitoring the RAIN funds is relatively easy because RAIN Source Capital is an active investor in each of the funds. We are at the table for investment meetings and know what is happening. In addition, we have developed proprietary software that provides value-added tools to each RAIN fund, and that software also enables us to help support and appropriately guide fund activities.

RAIN Source Capital and its network of RAIN funds have supported a variety of companies. For example:

- The network aggregated \$700,000 of capital to help finance the turnaround of a rural electronic repair business employing 450 people.
- Another rural enterprise turnaround was 100 percent financed by the network with \$1.5 million invested. RAIN Source Capital and a lead RAIN fund put the financing together, organized the Board of Directors, and brought in new management team members.
- A rural medical-device company has had support from the network since its seed stage. The network has provided \$3 million of the total \$13 million raised by the company, which is now completing its FDA application.

By design, RAIN funds both meet the needs of potential angel investors and benefit entrepreneurs and communities. "Angel investment groups can have an enormous difference in the number and quality of deals that angel investors can consider, as well as in the amount of potential capital available in a given region," said Marianne Hudson, director of angel initiatives for the Kauffman Foundation's Angel Capital Education Foundation, based in Kansas City. "Through its RAIN funds, RAIN Source Capital adds an excellent structure that makes investment options much more streamlined for angel investors. This also helps fill a huge capital gap for entrepreneurs."

Angel Funds Benefit Investors, Entrepreneurs, and Rural Communities

Formed as LLCs, RAIN funds are member-led groups of like-minded angel investors who pool their finances, their expertise, and their time to invest in companies. The best candidates for membership in RAIN funds are people who have money to invest, are interested in becoming active investors in growing companies, and see fund membership as part of their social and community involvement. In addition to individual investors, funds can also include participation by banks, local units of government, foundations, and other institutional members, as determined by the individual fund.

Member-led, each RAIN fund determines what industry it will focus on and the type and level of financing it will provide, based on the interests and expertise of the fund members. The members decide which companies to invest in, the amount of the investment, and the length of time to invest.

RAIN Source recommends how a fund can be structured, but each fund determines roles and responsibilities of specific members. Just like any group, some fund members are more active than others. Some members may want to play an active role in due diligence or monitor a company's performance. Others would rather just attend meetings and vote on the issues in front of them.

"RAIN Source Capital provides a solid template that makes it possible for people who would like to be active investors to step up to the plate," said John Reid, a RAIN fund member. "Through the RAIN funds, individual angel investors can share the expertise, the capital, the work, the risk, and the financial and emotional rewards of supporting entrepreneurs, building growing companies, and having a positive impact on their community, as well as making money."

RAIN Source Capital and the RAIN funds work to help entrepreneurs by building and nurturing their solid growth companies. In addition to capital, RAIN funds contribute strategic, financial, and operational expertise to help companies grow.

RAIN Source Capital has developed a procedure that makes it relatively easy for entrepreneurs to receive initial consideration for funding. Companies may contact RAIN Source Capital at any time by phone or e-mail to start the process of funding consideration. Initial screening involves providing preliminary information and answering six proprietary questions. Companies selected for a next level of screening are given the opportunity to make a presentation to a RAIN fund.

Companies in a variety of industries and with different growth needs are eligible for funding. In general, emerging companies that need early-stage capital, or need financing to support expansions, turnarounds, ownership transitions, and related growth opportunities, are eligible to be considered for financing. Ideal candidates for financing consideration are businesses that have already raised some capital from angel investors (family and friends) and have the potential to become a \$10 million company within five years. The only restrictions are that RAIN funds do not typically invest in restaurants, retail operations, or in mining or timber companies.

RAIN Source Capital works to provide timely feedback and expedite companies through the process. If a company is selected for financing, the process may take two to five months from the company's initial inquiry until the first check is mailed. The organization offers competitive investment terms and conditions commensurate with the geographic business environment. Through RAIN Source Capital's multi-state network, companies have the opportunity to be considered by more than one fund. Companies that receive financing can be considered for follow-on funding by one or more RAIN funds.

Finally, RAIN funds provide a vehicle for rural communities to harness and focus their capital on local business ventures. These networks are particularly beneficial in bringing the power of angel investing to smaller communities that are home to emerging entrepreneurial companies but are not typically targeted by equity funding sources. RAIN funds benefit communities by:

- Creating a sustainable investment fund
- Providing a source of capital and expertise critical to early- and high-growth companies
- Helping to recruit and nurture technology companies that pay good wages
- Building the capacity for local wealth creation
- Growing businesses that create good jobs

For example, one rural company had two employees before the investments by the RAIN funds; today that company has 22 employees, the majority of whom are in technical, high-wage jobs.

In addition, one fund usually cannot support a company's growth needs. Through the RAIN fund network, communities can draw from the entire network of RAIN funds as a local company grows.

"Launching our fund is the realization of a long-term idea for some of us," said Duane (Dewey) Tietz, chairman of a North Dakota RAIN fund. "For the past four years, we have been trying to put together something like this, where individuals have an easy way to help invest in our local companies. But we weren't able to get it structured and off the ground. Then we heard about RAIN Source Capital and its RAIN funds, and we realized this is exactly what we have been trying to do. We will be able to benefit from the business model developed by RAIN Source Capital and support area entrepreneurs, inventors, and small businesses that want to grow. In doing so, we can also help create the kind of dynamic, prosperous environment that provides opportunities for young people to stay and work in the area."

Future Growth: Opportunities and Challenges

Various reports estimate that by 2013 the number of millionaires in America will triple, thanks to inheritances from World War II-generation parents. If that's the case, we have even more opportunity for up-and-coming investors to support growing companies.

RAIN Source Capital is proceeding with a growth plan that includes forming at least one RAIN fund a month. To do so, we are educating potential angel investors through seminars and other outreach programs, as well as providing them with tools for organizing and establishing RAIN funds.

We are also building infrastructure and resources to help fund members take full advantage of what the network has to offer, because, in this case, we know that the sum truly is greater than the parts. With each new fund that we add, the opportunities for RAIN fund members grow exponentially. Through the network of funds, we are unlocking the door to more angel investor dollars, expanded deal flow, and more experience to tap into.

All around us are examples that underscore the importance of angel investors. Amazon.com, Google, and many other companies point to angel investors as having been instrumental in providing them with the funding they needed at the right time in order to survive and grow.

For the angels who participate in RAIN funds, the stories can be even more compelling, because RAIN fund angel investors are often motivated by helping other entrepreneurs and having a positive impact on the community, as well as making money. In fact, that is really how RAIN Source Capital got started. Before RAIN Source, I ran a seed fund that helped make an investment in a southwestern Minnesota company, a company that was in the business of making dumb valves smart—by putting controls and intelligence into valves used in a variety of industries, from hazardous waste control to other applications. Local members of the community also wanted to invest, and talked about wanting to figure out ways to work together to leverage our knowledge as well as our capital. Those discussions really led to the first RAIN fund. In addition to providing funding, RAIN Source Capital and the RAIN fund helped the company round out its board of directors, implement good governance procedures, hone its business strategies, and connect it with an ongoing financial manager. In addition, RAIN Source Capital served as a partner in negotiating the company's sale in a way that enabled the company to continue to grow and provide jobs in its community. That sale also became the fund's exit strategy. This is one of many examples that are occurring across the network of RAIN funds.

Our goal is to increase the expertise and the size of the angel investor community in areas of underinvestment. Angel capital is a long-term investment that gives investors the opportunity to take an active role in supporting growing companies. It can be very rewarding not only to be part of a company's success, but to see its broader contributions to the community as well.

Steve Mercil is the founder, president, and CEO of RAIN Source Capital. A board member of the Angel Capital Association, he is a pioneer in bringing angel investment opportunities, which have historically been clustered on the coasts, to states across the country and to the often-ignored rural areas of those states.

As Seen in
July 2005

Twin Cities
BUSINESS MONTHLY

THE RAINMAKERS

Rural companies have an especially tough time getting venture capital. But MinCorp is revealing a silver lining in those clouds.

By Daniel Gottlieb

Conventional wisdom says that there's very little venture capital available in rural America. Equity capital investments remain concentrated in metropolitan areas, leaving rural entrepreneurs at a disadvantage. That's historically been the case throughout Minnesota as well.

But for about a decade, the St. Paul-based Minnesota Investment Network Corporation (MinCorp) has discovered and developed opportunities on the road less traveled. Knowing that the flow of equity capital represents an economic lifeline for rural start-up companies, MinCorp has organized networks of angel investors across Minnesota into limited-liability corporations that invest in outstate Minnesota companies. These networks of RAIN funds (the name is an acronym for "regional angel investment network") are playing an increasing role in the development of rural Minnesota manufacturing and technology companies.

"The RAIN funds concept is straightforward," says Steve Merrill, MinCorp's president and CEO. "We believe that local investors—many of whom are successful entrepreneurs—are best able to identify high-growth business opportunities within their own communities. These angels know the business owners and have a better sense of the risks and opportunities inherent in financing companies in their own backyards than someone sitting in an office 100 miles away."

PHOTOGRAPHS BY JASON WOLD

MinCorp has earned national recognition—including honors from Charlotte, North Carolina-based financial-services firm Wachovia Corporation and the Philadelphia-based National Community Capital Association—for its innovative approach and its contributions in supporting regional investment growth. The St. Paul-based Northwest Area Foundation, which seeks to help communities reduce poverty, recently awarded MinCorp \$1.3 million to expand the program to eight states. MinCorp also has licensed its investment template to the Iowa Department of Trade and Economic Development, while individuals and organizations in North Dakota are using the RAIN model to set up similar networks there.

Compared to most big-name venture funds, the amounts the RAIN funds dispense to each business is small. But the funds' seed capital seems to be creating a promising harvest in rural Minnesota.

Buddy's System

Why do rural areas suffer from a drought of investment? Money managers cite several reasons. They perceive too few investment opportunities in rural areas to generate adequate deal flow, and a lack of financial know-how to support venture capital investment. And since venture investing is a hands-on endeavor requiring frequent contact with investors and entrepreneurs, many money managers are reluctant to spend hours traversing the back roads.

Mercil, a long-time advocate of rural economic development, experienced first-hand the challenges facing entrepreneurs in Minnesota's small towns as a former executive director of the Crookston Economic Development Authority. In 1992, Mercil joined the state-sponsored Minnesota Technology, Inc., an organization previously known as the Greater Minnesota Corporation, as the manager responsible for its fledgling Seed Capital Fund. The fund was

designed to make equity investments in early-stage and small technology-based companies in rural Minnesota communities. Mercil then hired Joan Wurzer, a member of Dain Rauscher's corporate finance department, who would become the Seed Capital Fund's investment manager.

While organizing his new office, Mercil discovered a plan for financing new businesses buried under piles of paperwork. The plan was written in 1989 by Alan "Buddy" Ruvelson, a legendary Minnesota venture capitalist credited with pioneering the techniques of private equity investing.

Ruvelson's concept called for the creation of seed capital funds throughout Minnesota. These funds

would link entrepreneurs with angels, institutional investors, and private venture funds in partnerships focused on capitalizing new rural businesses.

While Mercil and Ruvelson were developing their concept, a group of friends in Alexandria had already started such a network called Lakes Ventures—but they needed some help getting their idea off the ground.

Wings for Angels

"As a group, we wanted to invest in start-ups within the region," recalls Keith Anderson, an original member of the Lakes Ventures Group and now president of Litchfield-based IRD Switches (and a part-owner of two other companies). "We were committed to backing other entrepre-

MinCorp's RAIN investment funds are built on the belief that successful local entrepreneurs are best able to identify high-growth business opportunities within their outstate communities.



would help close the financing gap for entrepreneurs in the state seeking to expand their businesses, and would assist them in developing new products and technologies. Ideally, the funds would provide investments for rural start-ups, create well-paying jobs in Minnesota's small towns, and generate ample returns for investors.

Intrigued by Ruvelson's plan, Mercil arranged a meeting. "Buddy was an incredible fountain of information," Mercil recalls. "He knew everyone in the community, and everyone knew him. He's an approachable, down-to-earth guy whom people trust. Better yet, Buddy's progressive ideas about rural investing resonated with me. We were on the same page."

Ruvelson became Mercil's friend and mentor. Working together, they crafted a strategy to fund rural investment initiatives. They envisioned investment networks blanketing Minnesota and, ultimately, the entire Upper Midwest. These networks

would help close the financing gap for entrepreneurs in the state seeking to expand their businesses, and would assist them in developing new products and technologies. Ideally, the funds would provide investments for rural start-ups, create well-paying jobs in Minnesota's small towns, and generate ample returns for investors.

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It was in StoneL Corporation, a Fergus Falls-based manufacturer of valve-monitoring sensors and related products for processing industries such as refineries. (It's been a successful investment so far—StoneL Corporation is still in business, and continues to introduce new products.)

Despite the promise of the Lakes Ventures RAIN fund and the potential for developing similar networks, Mercil and Wurzer hit a roadblock when they tried to expand Minnesota Technology's rural investment program beyond the \$5.2 million in seed money it had invested in 16 companies. Since Minnesota Technology's board members were appointed by the state legisla-

ture and governor, the agency was cut from potential funding sources unable to recapitalize the fund. No law forbade Minnesota Technology from approaching the private sector, but private firms were reluctant to invest in the original seed fund, fearing that investment decisions might be influenced by political considerations.

So in 1998, the fund was spun off from Minnesota Technology and privatized as MinCorp, a 501(c)(3) nonprofit. Minnesota Technology transferred the Seed Capital Fund's assets to MinCorp and offered another \$2 million to recapitalize the fund provided that MinCorp could raise an equal sum. Which it did: Wells Fargo, U.S. Bank, and the U.S. Department of Treasury (through its Community Development Financial Institution Fund) contributed, as did the Blandin and Northwest Area foundations. Mercil and Wurzer also tapped some of the profits from the Minnesota Technology portfolio to meet the funding challenge.



The RAIN men and women: (from left) MinCorp staffers Dawn Lundquist, Cliff Smith, Joan Wurzer, Steve Mercil (MinCorp's president and CEO), and Brian Johnson.

Capital Cookbook

Now an independent entity, MinCorp could focus on the RAIN funds concept. Mercil became an active advisor to the Lakes Ventures Group, encouraging the members to expand their network and increase their capitalization to \$500,000, with a minimum investment of \$25,000 per

individual. MinCorp also invested money to further capitalize the fund's investment pool.

In order to better broaden its efforts, MinCorp hired Minneapolis law firm Gray Plant Mooty to create a template for organizing investment networks. The template covered everything from organizational and legal forms and structures to

suitability, financial analysis, investment, and financial management consulting services—the nuts and bolts of venture capital investing. The template, says Mercil, is “like a cookbook with the recipe that other angel investors can follow to create their own RAIN funds in three to six months while minimizing the start-up costs of developing a fund.”

The template's guidelines dictate that each RAIN fund have a minimum capital investment of \$500,000, with accredited individuals (those with a net worth exceeding \$1 million) investing between \$25,000 and \$50,000 each. Fund profits are distributed in proportion to each member's investment. Mercil

Dollars From Angels

Currently, there is \$9 million in equity capital available in nine RAIN funds, including six in Minnesota, two in Iowa, and one in North Dakota. The six Minnesota RAIN funds currently have \$4.5 million invested in 20 companies:

- Lakes Ventures Group, LLC (based in Alexandria): \$510,000 capitalization, 17 members
- Lakes Ventures Group II, LLC (Alexandria): \$790,000 capitalization, 25 members
- North Star Fund, LLC (Grand Rapids): \$550,000 capitalization, 14 members
- Prairie Capital, LLC (Worthington): \$650,000, 12 members
- Central Minnesota Growth and Transition Fund, LLC: \$1.5 million capitalization (introduced April 4), 15 members
- River Valley Capital, LLC (Montevideo): \$25,000 capitalization (introduced April 12), 7 members

—D. G.

adds that MinCorp's template isn't intended to cramp an investment group's style. "The terms and structure of each investment are negotiated case by case based on the financial needs of the company and the return expectations of each RAIN fund," he says. "Network members also recruit other prospective members, coordinate fundraising activities, and help shape the investment process." As a rule, RAIN fund investors expect returns similar to those traditional venture capitalists seek: 50 to 70 percent on seed and start-up financing, 30 to 40 percent on second-stage deals, and 25 to 30 percent on later-stage investments.

MinCorp assumes an active role in each RAIN fund through its \$15 million Equity Fund, the only such fund in Minnesota dedicated to rural business opportunities statewide. It provides 10 percent of capital investment up to \$100,000 per fund, plus templates and legal documents. It charges a small annual fee to manage fund operations, which includes screening hundreds of potential investment opportunities brought to its attention by the networks. In addition to its own capital and money raised by the angel networks, MinCorp taps funds through partnerships with foundations, venture capital firms, and investment banks to finance later-stage growth opportunities, such as business expansions and ownership transactions.

So, how is the RAIN program working? Mercil says that the funds have basically the same success rate as the rest of the venture capital industry, and that at least four new funds are slated for 2005. He also cites a portfolio of promising rural Minnesota companies that have benefited from the RAIN funds, including AbbeyMoor Medical in Parker's Prairie (see sidebar, this page); Sage Electro-chromics, a Faribault company that markets thin-film smart windows for shading and energy-usage control; and Tower-

Planting the Seed

AbbeyMoor might not have taken root without RAIN.

One of the MinCorp network's most promising investments is AbbeyMoor Medical. The Parker's Prairie, Minnesota, company manufactures a temporary prosthetic stent designed to help men with prostate problems. But without the financial support of MinCorp and several RAIN funds, AbbeyMoor might have remained an entrepreneur's unfulfilled dream.

AbbeyMoor traces its roots back to the late 1980s, when Lloyd Willard, a senior development manager for Twin Cities med-tech firm SciMed Life Systems, moved to Miltona, about 10 miles north of Alexandria. Willard purchased a 160-acre farm, which included a 5,000-square-foot metal shed attached to a red barn. He remodeled the shed into a research center and rented it to SciMed. The arrangement ended in 1993, shortly before SciMed was acquired by Boston Scientific. Willard then joined with John Reid, SciMed's former vice president of marketing and a co-founder of Plymouth-based med-tech firm Urologix, to start AbbeyMoor. They soon transformed the metal shed into a medical-device manufacturing site.

AbbeyMoor received its first round of financing in 1999 from MinCorp and a handful of angels. Since then, the Lakes Ventures I, Lakes Ventures II, and Prairie Capital RAIN funds have invested in AbbeyMoor. All together, the investment network has provided AbbeyMoor with more than \$1.5 million in equity capital. While the company has since raised more than \$10.5 million from a variety of sources, the initial investments came when the need was greatest.

AbbeyMoor introduced its first product, the Spanner Prostatic Stent, in European markets and is now conducting domestic clinical trials. Once the trials are completed and data collected, the company will petition the FDA for approval. AbbeyMoor (which moved to Parker's Prairie, a few miles away from Miltona, in December) expects its product to be available in the U.S. by the middle of next year.

Reid, who is also chairman of Lakes Ventures II, acknowledges that it would have been extremely difficult to obtain financing without the help of MinCorp and the RAIN funds. "They had a profound impact on AbbeyMoor Medical," he says.

—D. G.

based Powerain Systems, which is developing a touch-free car-wash technology. All told, the RAIN funds have invested \$8 million in state companies. As the firms grow, MinCorp works with its investment partners to arrange additional financing and recruit managers and board members.

"Most of the RAIN networks were forming during a steep downturn in the venture capital industry," Mercil notes. "Merger and acquisition activity has basically been at a stand-

still since 2000, which impacted the ability of the network members to cash out of an investment to fund other start-up ventures. But the networks weathered the downturn. Today we're reaching the critical mass needed to get deal flow. We're confident that the best is yet to come." ■

Daniel Gottlieb is a Twin Cities freelance writer.



Access to Equity Capital Through RAIN[®] *fund* Formation

North Dakota
February, 2007

Discover the Power of RAIN Angel Funds

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Agenda

- RAIN Source Capital
- Industry data and trends
- RAIN fund template – process to form and operate a RAIN fund
 - Formation stage: creating trust, understanding and leadership
 - Capitalization stage: fund design and fundraising
 - Operations stage: accountability and execution



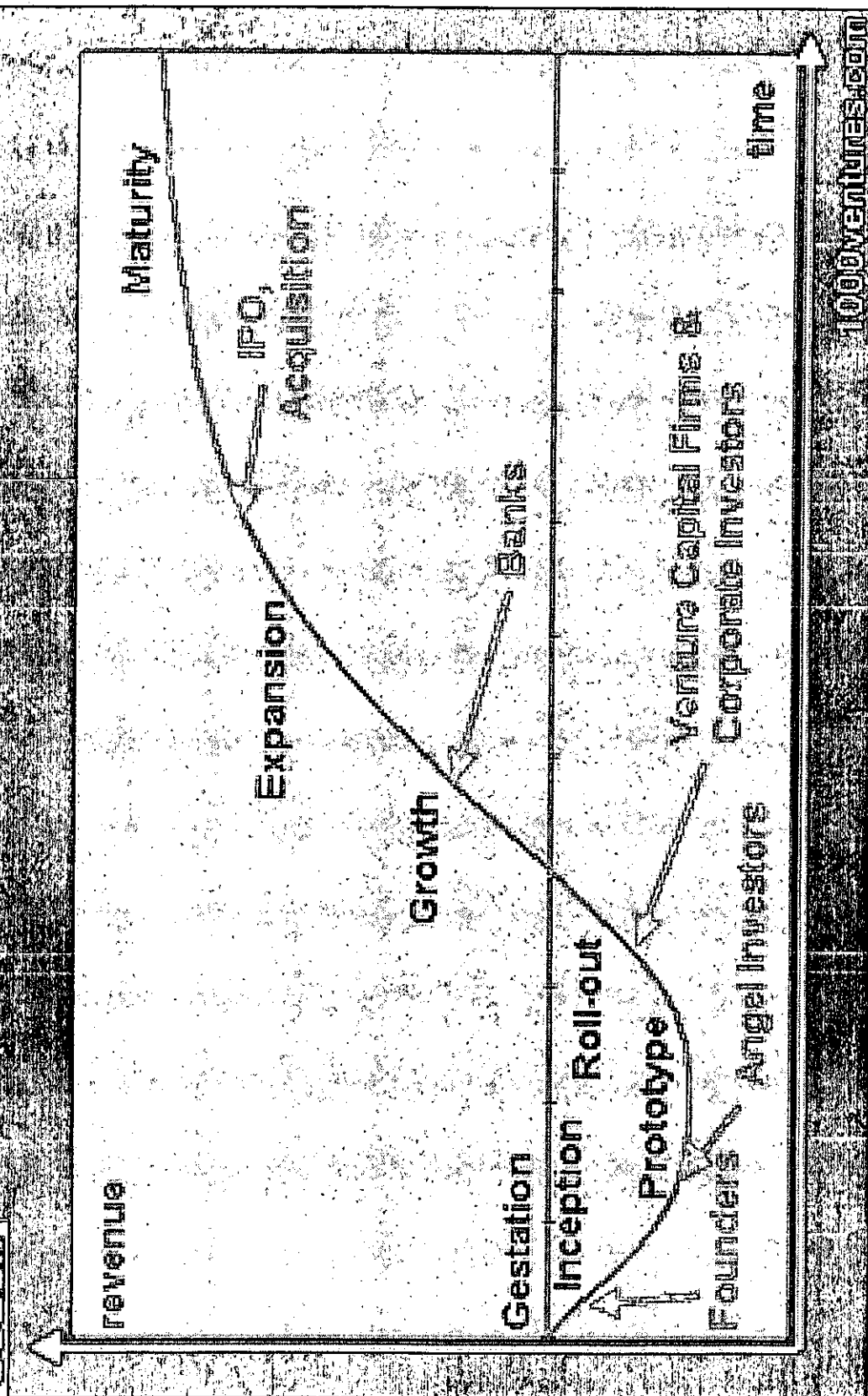
RAIN Source Capital builds capacity for making equity investments by forming and operating a network of equity funds

- RAIN[®] *funds* local/regional angel funds
- \$16.5 million RAIN[®] Source Equity Fund (angel fund of funds, side x side)
- \$14 million multi-state growth & later stage buyout fund (Invest Northwest)
- RAIN[®] *maker* conference and investor tools
- Ruvelson RAIN[®] *maker* Fellowship

RAIN



Venture Financing Chain



1000ventures.com

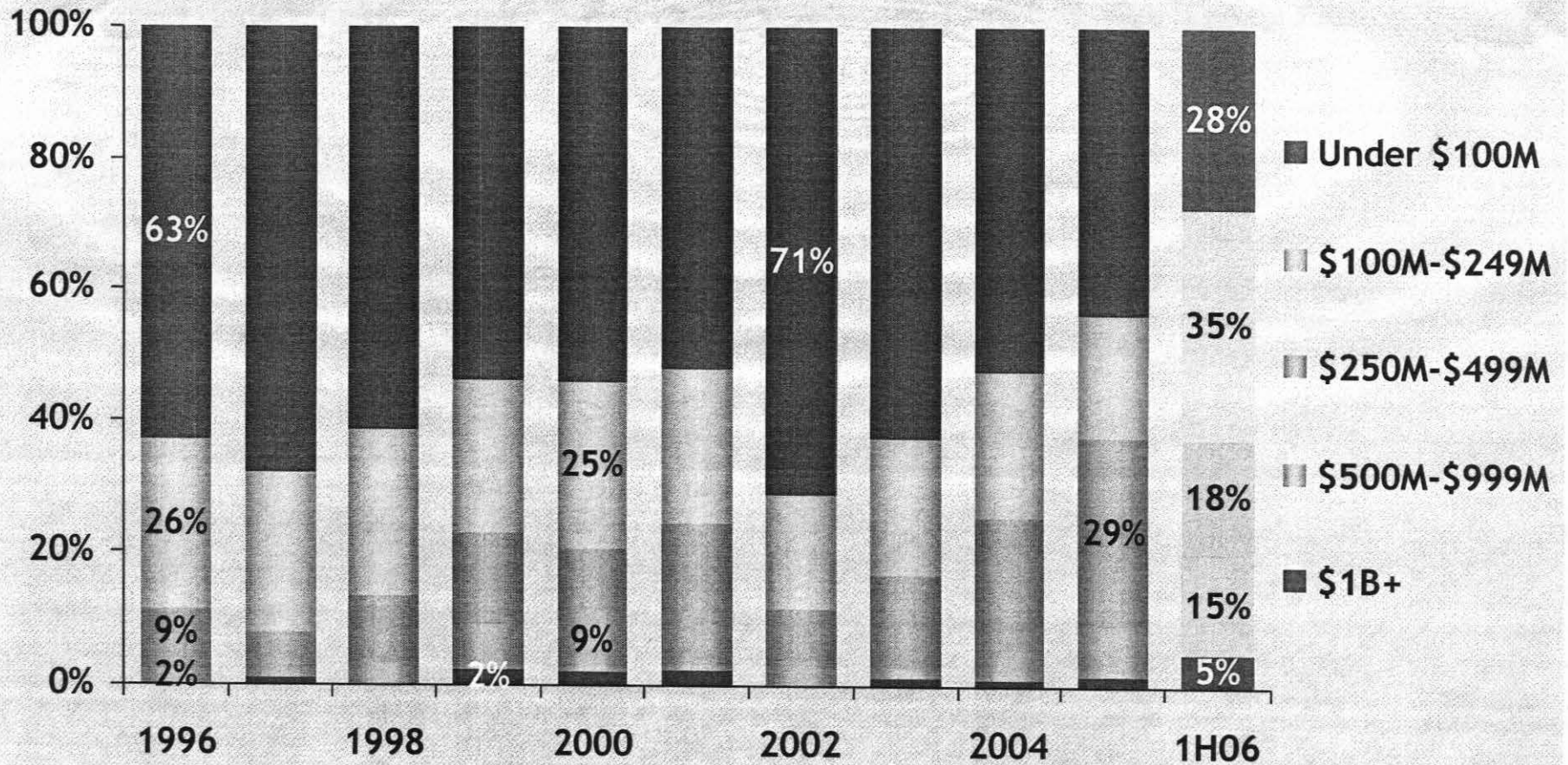
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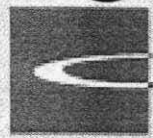
Funds Smaller Than \$100M Disappearing

Allocation of Fund Size by Number of Funds Raised per Vintage Year



Discover the Power of RAIN® Angel Funds

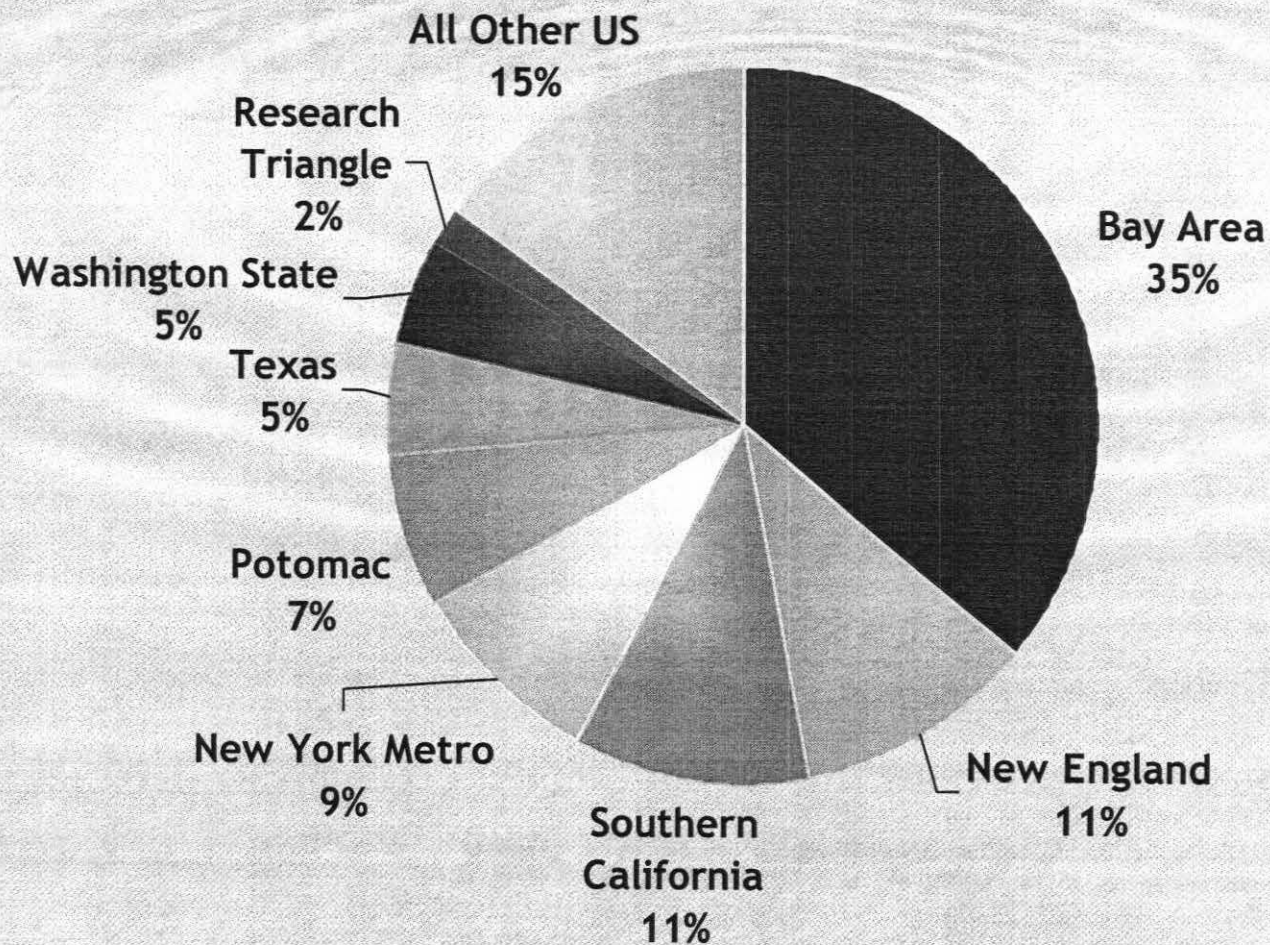
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RAIN SOURCE
CAPITAL

Bay Area Draws Most Investment Dollars

Regional Investment in the United States 2Q'06



Discover the Power of RAIN[®] Angel Funds

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Source: Dow Jones VentureOne/Ernst & Young



Venture Capital Portfolio Analysis

	<u>VC (\$\$\$) Investments</u>	
• Seed and startup companies	3%	} Angel Investments
• Early stage companies	16%	
• Expansion stage	36%	
• Later stage companies	45%	

Source: NVCA 2006 Yearbook

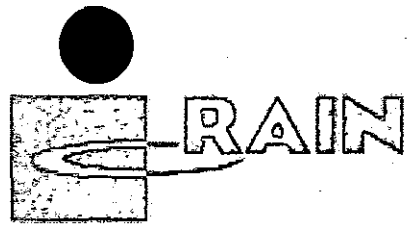
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Total Annual Investment

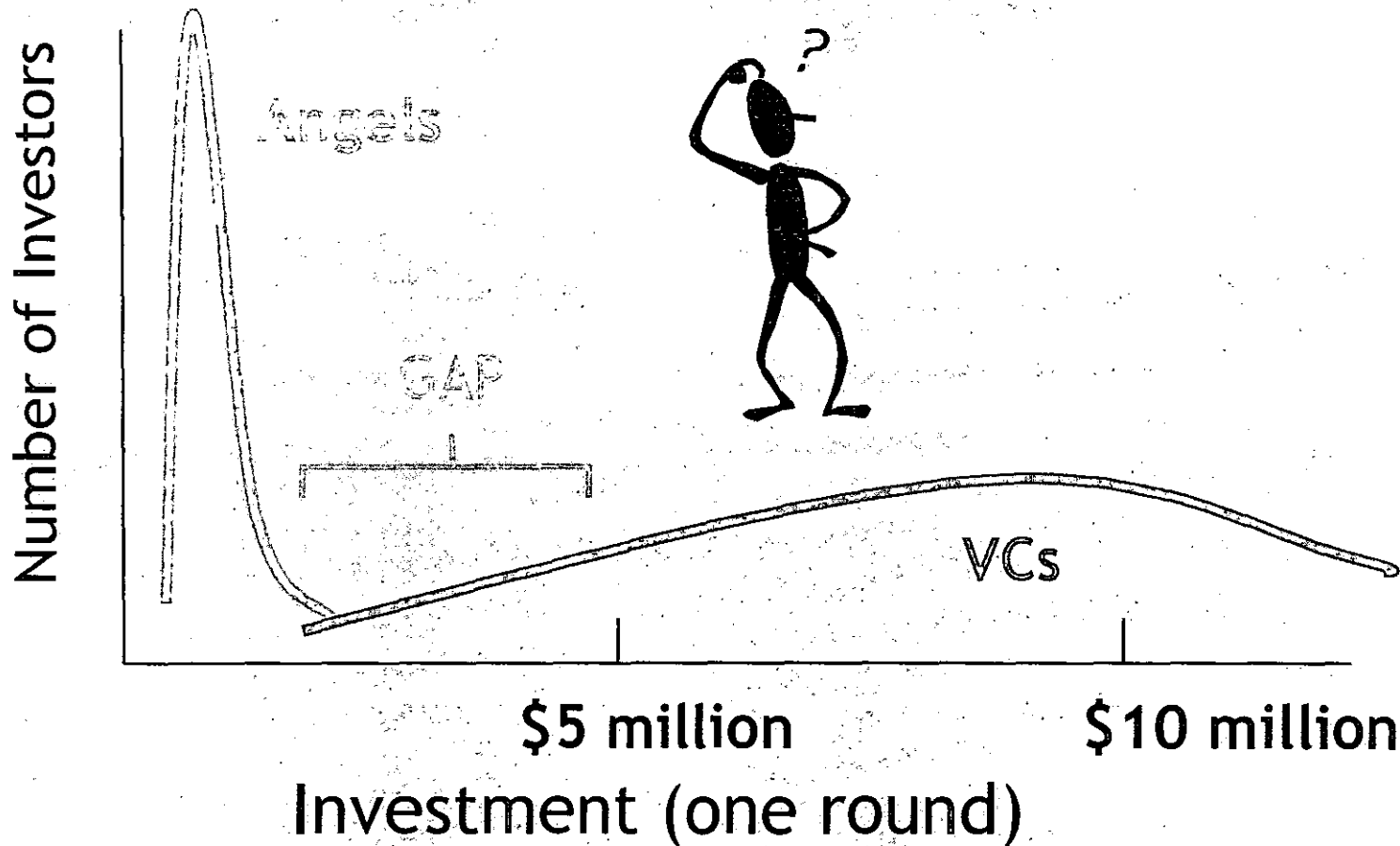
	<u>Angels</u>	<u>VCs</u>
Dollars	\$23.1 billion	\$21.9 billion
Number of Investments	49,500	3,008 (184 seed)
# of Active Investors	227,000	866
Per round	\$500-750K	\$7-8 million
Investors per round	6 - 10	2 - 3



Source Capital

Entrepreneurs:

Go Where the Investors Are



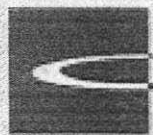
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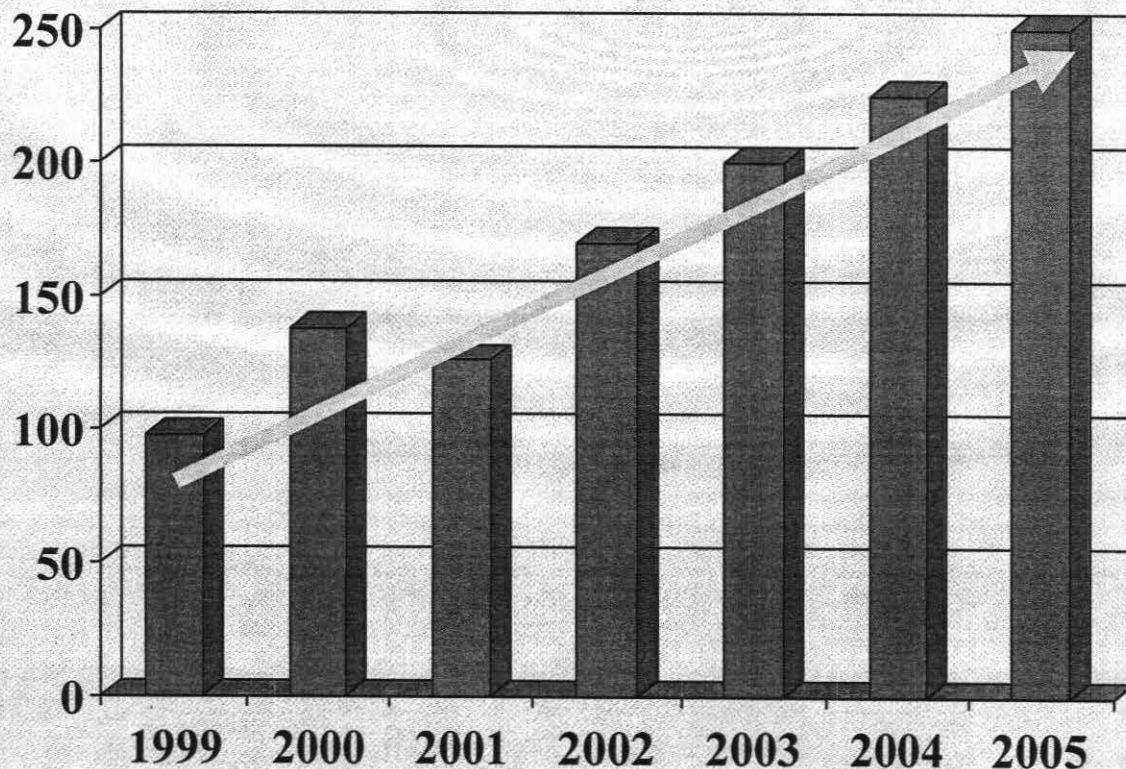
The Investor- Entrepreneur Dilemma.

- Insufficient capital
- Lack of expertise
- Lack of time
- Process for decisions - due diligence and monitoring
- Costs of transaction - time and money
- Understanding of structure, terms pricing, exits



RAIN SOURCE

Growth in Angel Organizations



Discover the Power of RAIN® Angel Funds

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Sources: Center for Venture Research and Kauffman Foundation (04-05 data)



Angels form funds to enhance returns by reducing the work, risks, and lack of diversity.

- Share capital, expertise, and time
- Increase the quality of deal flow
- Ensure thorough due diligence and monitoring
- Reduce transaction costs and operating costs
- Increase capital available to sustain company
- Increased fellowship



There must be a better way?

- Organize Capital and Expertise
- Support for sourcing and doing deals
- Preserve local decision-making
- Align financial interests
- Sustainable



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RAIN[®] *fund* Model

- Member Managed
 - LLC
 - Engages members
 - Members vote on investment
 - Members hire assistance via fee and carry



RAIN

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RAIN[®] funds: Proven model with long term commitment to ensure success.

- Provides proprietary templates, worksheets and legal documents
- Capital investment
- Ongoing management support
- Access to deal flow
- Access to co-investors
- Thorough due diligence and monitoring process



Assistance Provided at Three Stages



Create understanding and trust

- Organizing process
- Enable local leadership

Organized and Capitalized by local RAIN makers

- Provide legal Documents
- Provide capital
- Support local fundraising

RAIN Maker managed with support

- Member management
- Investment process
- Paid on success



Formation Stage: Creating Trust, Understanding and Leadership

- RAIN maker leadership required
- Accredited Investor(s)
- Champion the cause
- Fundraise
- Time and Persistence



Capitalization Stage: Fund Design and Fundraising

- Design PPM, control agreements
 - Capitalization
 - Governance
 - Investment criteria and process
 - Complete legal review and filings
- Identify prospective members
- Host and coordinate fundraising activities
- Sell the memberships via PPM



**RAIN[®] funds are organized and capitalized
by its member investors.**

- **Structure**
 - Limited liability company
- **Capitalization**
 - \$500K or greater
- **Member Investors**
 - \$30-50K minimum investment
 - 10-30% upon subscription
 - Accredited (angel) investors



RAIN[®] funds are managed by its members.

- **Establish Governance Structure**
 - Board, Officers, Management
- **Establish Investment Criteria**
 - Geographic focus
 - Business type and stage
- **Establish Investment Process**
 - Screening and due diligence
- **Approve Investments**
 - One vote per investor
 - Investment decision by 51% of quorum/members



Fundraising

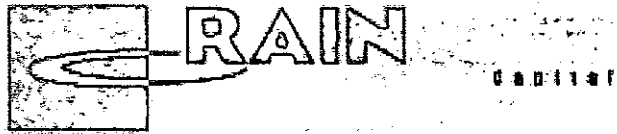
Complete Legal Review and Filings

- Review and revise for compliance with State Laws
- Reserve Corporate Name
- Ensure Compliance with State and Fed Security Laws
- File Articles of Organization



Fundraising

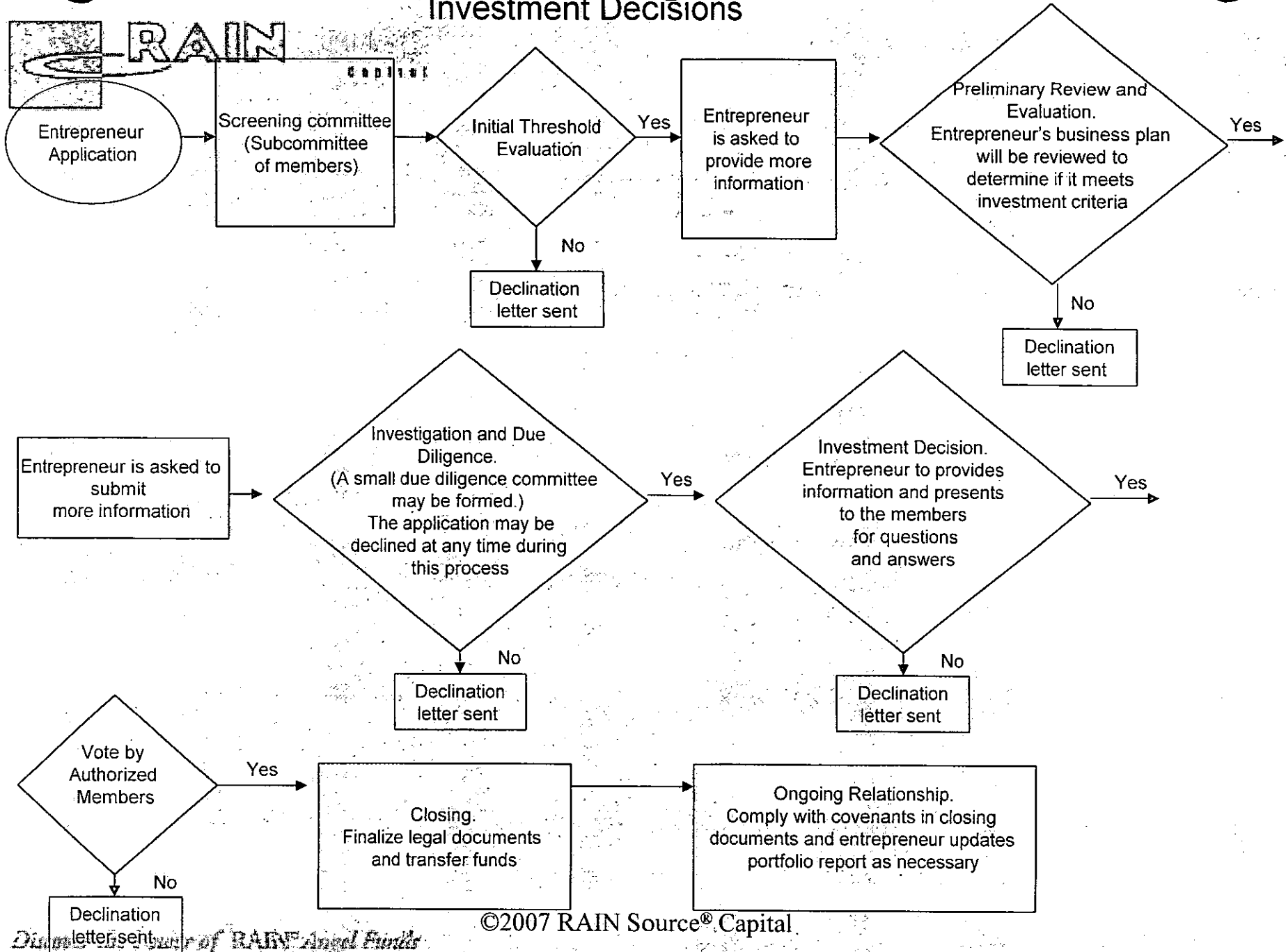
- Identify prospective members
- Host and coordinate fundraising activities
- Sell the memberships via PPM
- Establish escrow account



Operations Stage: Accountability and Execution

- **Organizational**
 - Membership communication
 - Meeting organization
 - Bookkeeping services, \$1200 annually
- **Investment Process**
 - Screening
 - Deal flow management
 - Due diligence
 - Pricing & structuring of investments
 - Closing & monitoring
 - 20% net gains

Investment Decisions





Capital



Street

1600 University Ave. W.
Suite 401
St. Paul, MN 55104
Phone: 651-632-2140
Fax: 651-632-2145

RAIN@Street works with accredited investor funds that focus on seed and early stage investments in local companies with exciting ideas and high potential. RAIN@Street delivers services and tools that help funds to find, evaluate, price, structure and monitor deals with companies. We simplify venture investing for a community of accredited investors. If you would like more information about RAIN@Street, please click below.

Username: *	<input type="text"/>
Password: *	<input type="password"/>
<input type="button" value="Login"/>	

[Forgot your password?](#)

[Entrepreneur Application](#)

RAINStreet Version 2.0 – Rollout in Q4 2006

Discover the Power of RAIN Angel Funds

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Due Diligence Worksheet Detail: Global Diversity
 Company: / View Detail / Requested: \$ / Primary Fund: / Update
 / Secondary Fund: RAIN Source Cap / Status:
 Worksheet Information /
 Description: Buyout of Minneapolis based producer
 Documents: Exec Summary, Article on 2003 Tax Return, 2005 Financial Results for
 Article from Strub, Working Capital Requirements, Financial
 Statements
 Save a Business Plan

Current Phase Categories

Management | Market | Product/Service | Financial | Social Synergy

Related Management Entrepreneur Applications Q & A

Management - Management, Board of Directors, and Advisors
 Q: Provide names, titles, and brief descriptions of the relevant experience, and education of the key members of the management team. Briefly describe the role any members of the investment team played in the company and how the company was provided a return to the investors. How much cash has been invested in the company by the management team?

A: GOVS MANAGEMENT TEAM
 The core three members of management team were largely responsible for building the ethnic non-profit organizations. well therefore have the extraordinary advantage of having 14 management teams in recent full-year fiscal periods of success.

What should I look for

We have found these questions to be most helpful in developing a good assessment of a company's Management.

- Has anyone on the management team or board of directors built and exited a successful company? If so, then describe the company and situation.
- How much investment has the management team, Board of Directors or advisors invested in the company? Do you feel this amount demonstrates the people involved in leading the company have a strong financial and management commitment to the success of the company?

Preliminary Evaluation: Narrative and Comments

The Current Management has not built and exited a company, but they were very successful in the past. They have worked in the industry for 26 years and is also going to stay on board with the company. has worked in the industry for 26 years and is also going to stay on board with the company. We are being asked to invest in buyout of PSI. The management team is very experienced in the space and the market leader in diversity job fair. is also in partnership with where mensur provides job fair candidates to

Rating Life Stage selected

Preliminary Evaluation: Analysis Review

Strengths

Strong Management Team
 Experienced in the Space
 Can leverage contacts to grow trade show revenue

Weaknesses

Head Office in Minneapolis. Execs will work from Chicago.
 Some question as to financial resources.

Review the analysis and answer the following questions

Conclusion

Review Comments

Save & Exit

Proceed to Market



CAPITAL

Analysis Review for

- Analysis Question 1
- Analysis Question 2

Preliminary Evaluation Categories	Strengths	Weaknesses
Management	Founder impressive and passionate about the business.	Needs a business partner/strong COO.
Market	Growing organic market.	Some concern that distribution model misses the crucial contact with the stores
Product/Service Uniqueness	Organic food better for consumer, although it is more expensive, there is a growing trend and those who buy organic will pay the higher price.	Some concern re frozen vs fresh. Would like to see better defined roll-out plan.
Financial	Company has sales traction.	not strong on financial side.
Goal Synergy		Exit needs to be better defined other than a put back in year 5.

Review the analysis and answer the following questions

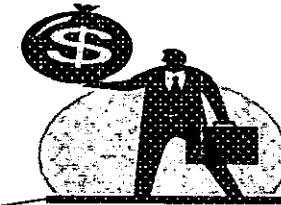
Conclusion

Review Comments

Close



RAIN® fund: *Capital and Intellectual Leverage*



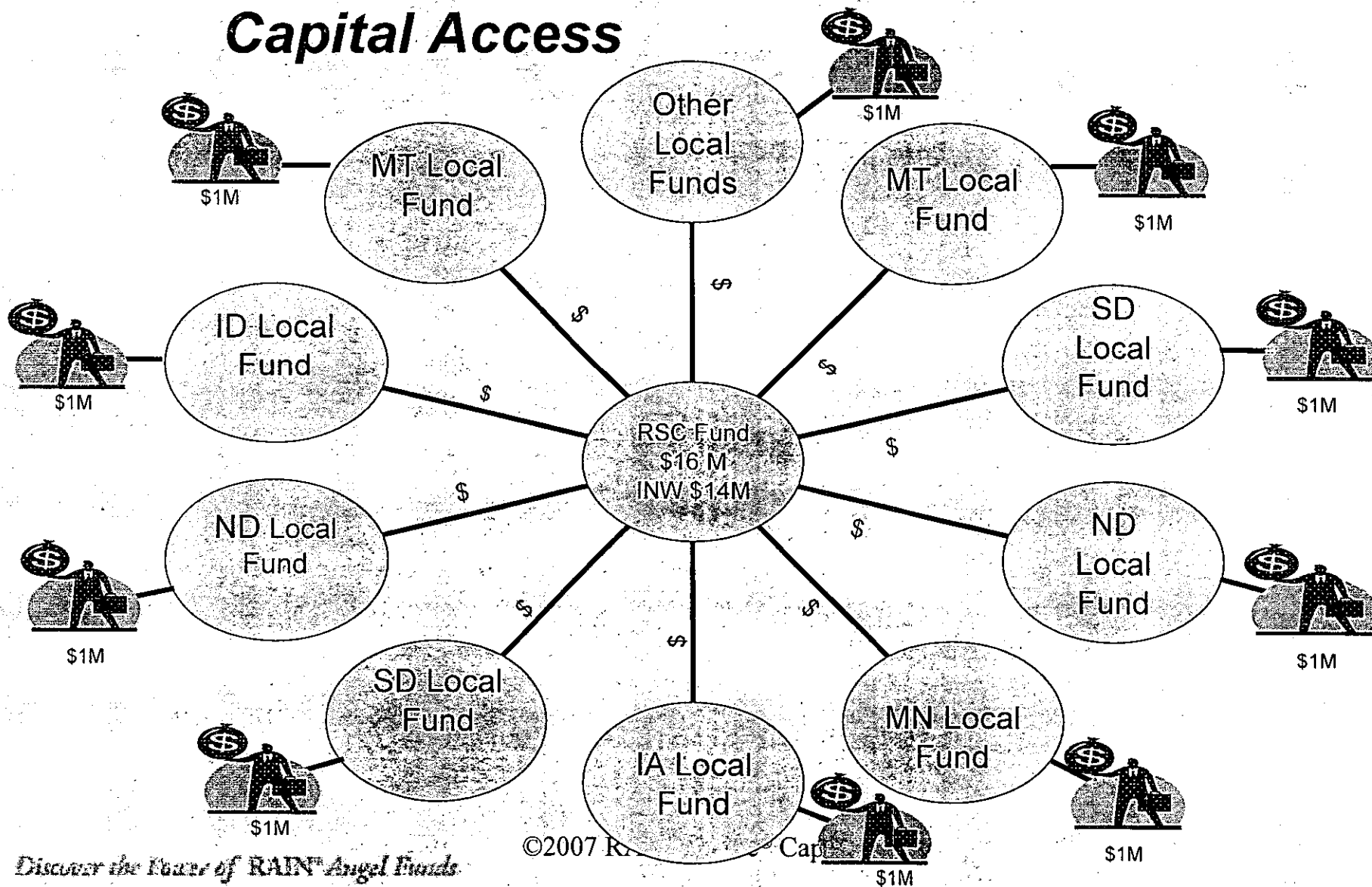
\$1 M

Local RAIN
\$1 M

RAIN Equity
\$16 M



RAIN® fund Network : \$50 million Capital Access



Discover the Power of RAIN® Angel Funds

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RAIN[®] funds are a proven model
\$20 million available with \$60 million
invested in 40 companies!

- Lakes Venture Group I and II, Alexandria, MN
- Prairie Capital I and II, Worthington, MN
- North Star Fund, Grand Rapids, MN
- Central MN Growth & Transition Fund, Willmar, MN
- River Valley Capital, Montevideo, MN
- St. Cloud RAIN Fund, St. Cloud, MN
- Rock River Capital, Rock Rapids, IA
- Sofia Angel Fund, Mpls/St. Paul, MN
- Two Rivers Fund, Mankato, MN
- Prairie Winds, Sioux Falls, SD
- Frontier Angel Fund, Kalispell, MT
- Northern Plains, Bismarck, ND
- Valley Angel Investment Fund, Grand Forks, ND
- FM Angel Investment Fund, Fargo, ND
- 3 Licensees – 2 in Iowa, 1 in ND

In process:

- Minnesota – 2-3 funds
- South Dakota – 2-3 funds
- Other states – 2-4 funds

Expansion Target:

- Idaho, Iowa, Montana, Oregon, Washington, Michigan



RAIN® *fund* Network: Competitive Advantage

- Proven Model
- Long term Commitment and Partners
- Enables Community Investor Leadership
- Provides Fellowship
- Provides Co Investors and Opportunities



RAIN[®] *maker* Conference

September 27-28, 2007

St. Cloud, MN

Best practices, investment showcase, learn how to overcome barriers to investing

- Networking Events and Keynote speaker
- Best Practices Highlighted
- Showcasing the investments of a variety of funds
- Round table discussion with RAIN[®] *fund* leaders
- Invitations available through RAIN[®] Source Capital



RAIN Source[®] Capital

Steve Mercil

1600 University Ave. W.

Suite 401

St. Paul, MN 55104

Ph. (651) 632-2144

Website: www.rainsourcecapital.com

Discover the Power of RAIN Angel Funds

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**RAIN Source Capital:
The RAIN Network as of December 1, 2006**

224

	<i>Founded</i>	<i>Capitalization</i>	<i>Number of Members/ Investors</i>	<i>Focus</i>	<i>Number of Portfolio Companies</i>
MINNESOTA					
Alexandria					
Lakes Venture Group, LLC	1994 (expanded in 1997)	\$510,000	17	Alexandria area and Minnesota	10
Lakes Venture Group II, LLC	2004	\$790,000	25	Alexandria area and Minnesota	3
Grand Rapids					
North Star Fund, LLC	2003	\$550,000	14	Grand Rapids area and Minnesota	4
Mankato					
Two Rivers Angel Investment Network, LLC	2005	\$750,000	15	Mankato area, Minnesota, and where members reside	3
Minneapolis/St. Paul					
Sofia Angel Fund, LLC	2006	\$810,000	26	Women owned and women led businesses, and businesses with products or services benefiting women	0
RAIN Source Capital Equity Fund	1998	\$16 million	7	side-by-side investments in Minnesota companies with RAIN Funds and Invest Northwest	14
South Metro Investors	Fundraising			Burnsville, Minnesota	
Montevideo					
River Valley Capital, LLC	2005	\$600,000	13		3
Northfield					
3C Capital	Fundraising				
St. Cloud					
St. Cloud RAIN Fund, LLC	2005	\$1.15 million	17	St. Cloud area and Minnesota	1
Willmar					
Central Minnesota Growth and Transition Fund	2005	\$1.5 million	15	Ownership transfers of companies in wholesale, manufacturing, assembly and distribution industries with an emphasis on central Minnesota.	1
Worthington					
Prairie Capital, LLC	2001	\$640,000	12	Worthington region, which includes Southern Iowa and Minnesota.	8
Prairie Capital, II LLC	2006	\$500,000	8	Worthington region, which includes Southern Iowa and Minnesota.	0

**RAIN Source Capital:
The RAIN Network as of December 1, 2006**

IOWA	<i>Founded</i>	<i>Capitalization</i>	<i>Number of Members/ Investors</i>	<i>Focus</i>	<i>Number of Portfolio Companies</i>
Cedar Falls					
Cedar Valley Venture Fund		\$1.61 million	36		
Mason City					
Northern Iowa Venture Capital Fund		\$1.67 million	61		
Rock Rapids					
Rock River Capital, LLC	2005	\$535,000	15	Rock Rapids area, Iowa, Minnesota, South Dakota	4
MONTANA					
Kalispell					
Frontier Angel Fund, LLC	2006	\$700,000	15	Western Montana and Montana	0
NORTH DAKOTA					
Bismarck-Mandan					
Northern Plains Investment, LLC	2006	\$575,000	13	Bismarck-Mandan and other parts of North Dakota	0
Grand Forks					
CONAC Fund		\$400,000	8		
Valley Angel Investment Fund, LLC	2006	\$540,000	13	Northern valley of North Dakota and Minnesota	0
Fargo					
FM Angel Investment Fund	2006	\$600,000	8	Fargo North Dakota and Moorhead, MN and North Dakota and Minnesota	
REGIONAL FUND					
Idaho, Iowa, Minnesota, Montana, North Dakota, Oregon, South Dakota and Washington					
Invest Northwest, LP	2004	\$14M	3	Management buyouts and later-stage growth companies with sales over \$5 million in 8-state area	9

**RAIN South Dakota Capital:
The RAIN Network as of December 1, 2006**

	<i>Founded</i>	<i>Capitalization</i>	<i>Number of Investors/ Members</i>	<i>Focus</i>	<i>Number of Portfolio Companies</i>
SOUTH DAKOTA					
Sioux Falls					
Prairie Winds, LLC	2006	\$600,000	10	Sioux Falls, South Dakota, Iowa, South Dakota, and Minnesota markets	0
Brookings					
SDSU/Brookings RAIN Fund				Fundraising	
Aberdeen					
Great Opportunities				Fundraising	
Total number of portfolio companies eliminating doublecounting ie. funds invested in the same company					

Belter, Wesley R

From: Bruce Gjovig [bruce@innovators.net]
Sent: Monday, February 26, 2007 7:56 PM
Subject: SB 2225 Tax Credits for Angel Capital

On Wed morning the House Finance and Taxation Committee hears SB 2224.

For SB 2224 (with an amendment) to extend a 45% state investment tax credit for investors in angel funds to match the 45% tax credit for individual investors in qualified businesses.

1. Goal of SB 2224 is to target the right ventures (growth) and the right angels (multiple investments, at least 10 in a portfolio) to have the most economic impact to justify the tax credits. Pooled angel funds utilize collective wisdom, expertise and judgment of several investors to draw additional investors (increased seed capital).
2. SB 2224 extends the existing 45% state investment tax credit to pooled angel funds. Both are needed to meet the needs of early-stage capital for venture growth and give an incentive to accredited investors in North Dakota, ie. those investors with worth more than \$1 M. There are 11,600 millionaires in North Dakota (Impact Foundation 2005) who are potential investors.
3. *Please amend SB 2224 on page 1, line 9, to return the requirement to 51% of investment on qualified companies. The 100% requirement is unworkable as investors need to be able to invest in venture deals in border cities, and participate in deals with other angel funds in MN, SD, MT, etc. This is not a "leakage issue" as outside Angel funds will participate in North Dakota deals attracting funds to North Dakota. Angel funds need to cross borders, both ways to a strong investment portfolio.*
4. More than 20 states offer an income tax credit to encourage private investment to create and grow early-stage ventures. Will build more capacity to make more equity investments.
5. Last year (2006) three Rural Accredited Investor Network (RAIN) funds were formed in Bismarck, Fargo and Grand Forks. Expect 2 to 5 more angel funds in other cities over next two years. To date, over 60 angel investors committed more than \$3 M in pooled funds, and made two North Dakota investments in 2006. Our 3 ND funds work with 17 other angel funds (20 total) in 5 upper plains states all affiliated with RAIN Source Capital of St Paul, MN led by Devils Lake native and UND graduate Steve Mercil. Other funds can/will participate in North Dakota deals increasing our equity capital sources (but not share in tax credit). Angel Funds may share deal flow, due diligence, expertise, capital, and monitoring for larger equity investments. Means more efficiency, and lower transaction costs.
6. Early-stage angel capital is necessary to accelerate innovation, start and grow entrepreneur ventures and create the jobs we need. One in five Americans works for an entrepreneur or is an entrepreneur in a venture that is less than 5 years old. Angels offer patient money that is higher risk with a longer horizon for liquidity which is why public and private venture prefers later-stage venture deals. The higher risk and long horizons define the need for this tax incentive.
7. Nationwide for each startup that secures venture capital (just 250 per year) annually over 200 startup companies (50,000) secure angel investment. Less than 1 in 10 startups receive angel funds as few provide high enough return on investment (ROI) from growth. Tax incentive is targeted at high growth ventures.
8. According to the Center for Venture Research 227,000 angel investors invested more than \$23 billion into new ventures in 2005, the last year data are available, creating 198,000 new jobs, or 4 new jobs per angel investment.

2/28/2007

9. Incentive should add at least \$1 M in seed capital per year in North Dakota from wide network of angel investors. Each Angel Fund will invest in ten or more ventures to develop an investment portfolio (no more than 10% in any deal). Since 2002, 1014 angels in North Dakota have invested \$36 M with \$10 M in allowable credits. This does include investment credits in the state.

10. The bill avoids creation of a new bureaucracy for administration, making the tax credit easy to administer for accredited angel investors

11. Angels are more than funding: they also expertise, coaching, contacts, and problem solvers. This is value added investing.

Most of economics can be summarized in four words: '**People respond to incentives.**' "The rest is just commentary." Steven Landsburg, the Armchair Economist, U of Rochester (NY)

Bruce Gjovig
UND Center for Innovation
Grand Forks, ND
www.innovators.net
701-7770-3134

SB 2224-A

2-28-07

#1

Testimony to the House Finance & Taxation Committee

Wed. Feb 28, 2007

Bruce Gjovig, UND Center for Innovation
4200 James Ray Dr, Grand Forks, ND 58203
701-777-3134, Bruce@innovators.net

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6. Early-stage angel capital is necessary to accelerate innovation, start and grow entrepreneur ventures and create the jobs we need. One in five Americans works for an entrepreneur or is an entrepreneur in a venture that is less than 5 years old. Angels offer patient money that is higher risk with a longer horizon for liquidity which is why public and private venture prefers later-stage venture deals. The higher risk and long horizons define the need for this tax incentive.
7. Nationwide for each startup that secures venture capital (just 250 per year) annually over 200 startup companies (50,000) secure angel investment. Less than 1 in 10 startups receive angel funds as few provide high enough return on investment (ROI) from growth. Tax incentive is targeted at high growth ventures.
8. According to the Center for Venture Research 227,000 angel investors invested more than \$23 billion into new ventures in 2005, the last year data are available, creating 198,000 new jobs, or 4 new jobs per angel investment.

9. Incentive should add at least \$1 M in seed capital per year in North Dakota from wide network of angel investors. Each Angel Fund will invest in ten or more ventures to develop an investment portfolio (no more than 10% in any one deal). Since 2002, 1014 angels in North Dakota have invested \$36 M with \$10 M in allowable credits. This does include ag investment credits in the state.

10. The bill avoids creation of a new bureaucracy for administration, making the tax credit easy to administer for accredited angel investors

11. Angels are more than funding: they also expertise, coaching, contacts, and problem solvers. This is value added investing.

Most of economics can be summarized in four words: '**People respond to incentives.**' "The rest is just commentary." Steven Landsburg, the Armchair Economist, U of Rochester (NY)

#2

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2-28-07 Am

House Finance and Taxation Committee - SB 2224

Wednesday, February 28, 2007

Mr. Chairman and members of the House Finance and Taxation Committee. I wish to thank you for the opportunity to speak in support of Senate Bill 2224.

My name is Raymond Gruby and I am the CEO of Gruby Technologies, located in Bismarck ND. Before my present position, I practiced orthopaedic surgery in Bismarck at the Bone and Joint Center since 1977.

Based in Bismarck, ND, Gruby Technologies, Inc. is a leading developer of real-time information solutions for the healthcare market. The company's flagship offering, C-Freedom™, combines innovative location-sensing hardware, handheld PDAs and hosted software applications to deliver significant improvements in organizational efficiency, patient safety, and provider effectiveness. C-Freedom is currently being marketed and sold to hospitals, clinics, long-term care, and assisted living facilities throughout the United States and Canada.

Our company implemented our first site in rural North Dakota in July, 2004. Having proved the concept of delivering first grade medical care from the provider's hand we begin our search for capital. Of immense importance, was the ND seed capital investment tax credit. The North Dakota citizens that invested in our company considered this crucial in investing in a start-up company.

As a company that has had to raise capital through individual angel investors, we can assure you this is an incredibly challenging undertaking, particularly in North Dakota where venture capital has historically been much more scarce than in other areas of the

country. Regardless of how great of company and idea an entrepreneur may have, finding qualified angel investors that prefer anonymity and working through the investment process is enormously challenging without structure and an established process to guide both parties through the steps.

The RAIN fund concept provides that structure and is a much more efficient method of bringing growing companies and angel investors together. We have been introduced to over 40 investors that we would not have been otherwise, and those investors would not have known that we exist and are seeking capital. Very likely, the dollars they have available to invest would flow to out of state companies simply because there was no catalyst to bring them together with companies like ours.

We now have first hand experience with seeking angel investors both independently as well as through the RAIN funds. The Northern Plains Investment Fund (Bismarck's RAIN Fund) has already invested in Gruby Technologies, and we are in active discussions with the Fargo RAIN fund for the same. We can attest that the RAIN funds achieve the objectives they set forth, and we firmly believe they will be essential to providing more companies like ours the necessary capital needed to successful grow and create great jobs in North Dakota.

SB 2224, allowing a 45% tax credit for investments in an angel fund (ie RAIN fund) where 51% of the investments need to be in North Dakota, would be extraordinarily useful in placing good companies in fertile soil for future growth.

I encourage the passage of SB 2224 and would appreciate questions at this time.

#3 2-28-07-AM
2224-A

ECONOMIC DEVELOPMENT ASSOCIATION OF NORTH DAKOTA



PO BOX 2639 • 2000 SCHAFER STREET • BISMARCK, NORTH DAKOTA 58502

**Testimony of Dana Bohn
Lobbyist
Economic Development Association of North Dakota
SB 2224**

Mr. Chairman and members of the committee, my name is Dana Bohn. I am here today to testify on behalf of the Economic Development Association of North Dakota (EDND) in support of the original version of Senate Bill 2224.

EDND is the voice of the state's economic development community and provides networking for its 80 members, which include development organizations, communities, businesses and state agencies. Our mission is to increase economic opportunities for residents of the state by supporting primary sector growth, professionalism among economic development practitioners and cooperation among development organizations. We are asking that you support SB 2224 and thus, North Dakota's economic growth.

We are all aware of the efforts and programs we have developed over the years to spur economic development in our state. We see SB 2224 as a logical extension of other programs that have proven to be very effective tools for North Dakota communities and their developers in economic expansion.

All across the state, entrepreneurs have new ideas for business opportunities that would spur economic activity within the community and the state. Such entrepreneurs, however, lack the money and expertise needed to make those ideas become a reality.

Angel funds could become essential tools by providing not only the financial support, but the wisdom, expertise, judgment and research needed to help get those ideas and those new businesses off the ground. Throughout the nation, angel funds have become a primary source for supporting these ventures, but currently, North Dakota lacks a strong or large enough angel fund to accelerate such innovation and venture growth within the state. The tax credit proposed in SB 2224 could provide the incentive needed to entice investors to help start and develop entrepreneurial ventures, especially on a local level.

Already, 227,000 angel investors have invested more than \$23 billion into new ventures in 2005, creating 198,000 new jobs in the nation. On a more local level, North Dakota has several programs that have created successful outcomes, including the renaissance zone program, which provides a property tax rebate and a tax credit. By providing a similar tax credit for investment in angel funds, we anticipate that businesses would be more willing to further support venture growth by investing on a local level with people they know. Their investment will lower risk, encourage innovation, and create economic and employment opportunities within North Dakota communities.

North Dakota has a tremendous need to develop additional sources of equity capital. There are more than 11,600 millionaires in North Dakota. It is important to encouraging the private sector to invest in North Dakota ventures and encourage growth and innovation.

The bill as amended requires that 100 percent of the funds are committed to North Dakota investments to be qualified for the 45 percent investment tax credit. That creates a problem because the funds need to be able to invest in venture deals in border cities, and participate in deals with other angel funds in Minnesota, South Dakota and Montana. Those angel funds will also participate in North Dakota deals attracting angel funds to North Dakota. Angel funds need to cross borders, both ways.

EDND believes SB 2224 in its original form will aid development in North Dakota and build on a successful program that works. We urge a do pass on the original version of the bill. I would be happy to answer any questions.

3-12-07

#1



STATE OF NORTH DAKOTA
OFFICE OF STATE TAX COMMISSIONER
Cory Fong, Commissioner

SB 2224

Memorandum

To: Representative Mark S. Owens, Member, North Dakota House of Representatives' Finance and Taxation Committee

From: Mary Loftsgard, Supervisor, Corporate Taxes ^{ml}

Date: March 8, 2007

Subject: Senate Bill No. 2224

Senate Bill No. 2224, as originally drafted, created a tax credit for investors in an "angel fund", which would, in turn, commit at least 51% of its investments to businesses that qualified for the seed capital investment tax credit under North Dakota Century code Chapter 57-38.5. As we discussed yesterday, this memo is to clarify how the credit would be claimed based on the amendments to the bill.

In Section 1 of the amendment, an angel fund is identified as a taxpayer which may qualify for the seed capital investment tax credit. Section 2 of the amendment indicates that the angel fund is considered the taxpayer for purposes of the investment limitations of the credit. Thus, the investment limitation is calculated based on the total fund investment in a qualified business, not on the investment contributed by each investor in the fund.

For example, assume four investors each invest \$250,000 in an angel fund for a total of \$1,000,000. The angel fund then invests the full \$1,000,000 in a qualified business. The amount of investment eligible for the credit is \$250,000 and the credit would be 45% of that investment, or \$112,500. In this case, since each investor contributed equally to the angel fund, the credit would be divided equally amongst them. Each investor does not take a credit of \$112,500 based on their own investment.

If you have additional questions, please contact me by phone at 328-2045 or by email at mloftsgard@nd.gov. Or, you may reach Dee at 328-2777 or dwald@nd.gov.

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2224

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to create a new subsection to section 57-38.5-03 of the North Dakota Century Code, relating to the eligibility for the seed capital investment tax credit for investments made by an angel fund ; to amend and reenact subsection 6 of section 57-38.5-01 of the North Dakota Century Code, relating to the definition of taxpayer for purposes of the seed capital investment tax credit; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Subsection 6 of section 57-38.5-01 of the North Dakota Century Code is amended and reenacted as follows:

6. "Taxpayer" means an individual, estate, or trust or a corporation or a passthrough entity, or an angel fund. The term does not include a real estate investment trust.

SECTION 2. A new subsection to section 57-38.5-03 of the North Dakota Century Code is created and enacted as follows:

1. An angel fund that invests in a qualified business must be considered to be the taxpayer for purposes of the investment limitations in this section. The amount of the credit allowed with respect to an angel fund's investment in a qualified business must be determined at the angel fund level. The amount of the total credit determined at the angel fund level must be allowed to the investors in the angel fund in proportion to their respective interests in the fund. An angel fund that is subject to the tax imposed under 57-38 is not eligible for the investment tax credit under this chapter.

SECTION 3. EFFECTIVE DATE. This Act is effective for taxable years beginning after December 31, 2006.