THE NEW MARKETS VENTURE CAPITAL PROGRAM

Providing Equity Capital and Expertise to
Entrepreneurs in Low-Income Urban and Rural Communities

July 2006

Prepared by:
The Community Development
Venture Capital Alliance (CDVCA)
www.cdvca.org

CDVCA
COMMUNITY DEVELOPMENT
VENTURE CAPITAL ALLIANCE

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INTRODUCTION

This report examines the record of the New Markets Venture Capital ("NMVC") Program. Congress created the NMVC Program in 2001 to encourage venture capital investment in low-income communities of the United States in order to create jobs and entrepreneurial capacity in places where traditional venture capital funds typically do not invest. Six NMVC companies were formed and began investing in 2003 and 2004.

While the six NMVC funds are still less than halfway through their investment cycles, they have already experienced substantial success and have had important impacts on their communities:

- Six NMVC companies currently operate in underinvested, low-income urban and rural areas throughout America, including rural Maine, New Hampshire and Vermont; Central Pennsylvania; distressed parts of Maryland, Virginia, and Washington, DC; distressed parts of Delaware, New Jersey, and Pennsylvania; Appalachian Kentucky, Tennessee, Alabama, Georgia, and Mississippi; and Appalachian Ohio, West Virginia, Maryland, and Kentucky.

- These NMVC funds have invested more than $48 million in 75 companies in poor, underinvested areas of the nation, as of March 31, 2006.

- They have leveraged $136 million in investments from other sources, including individual angel capitalists and other venture capital funds that the NMVC Companies lead into deals in their regions, a leverage ratio of more than 4 to 1.

- They have provided more than $6 million in operational assistance grants to 163 companies to fund such things as a business plan that plotted the success of a Vermont importer of organic fair trade products, a business plan for a Maine software business that used the plan to secure $1.2 million in other equity financing, and a business plan for an industrial mat manufacturer that resulted in expansion and hiring of additional employees.

- As of March 31, 2006, they had created 368 jobs and created or maintained 1,626 jobs in the areas in which they operate; companies receiving operational assistance grants had employment of almost 1,000 people.

- They are proving that it is possible to find and invest in strong, high-growth companies in low-income, underinvested areas of America to make market-rate returns for investors, successfully return tax-payer dollars to the federal government, and foster economic growth and create good jobs in some of America's most distressed urban and rural areas.

This report was prepared by the Community Development Venture Capital Alliance ("CDVCA"), which is the trade association for the rapidly growing field of community development venture capital ("CDVC") investing. All six of the companies founded under the NMVC Program (the "NMVCCs") are CDVCA members. CDVC funds provide equity capital to businesses in underinvested markets, seeking market-rate financial returns, as well as the creation of good jobs, wealth, and entrepreneurial capacity. CDVC funds are mission-driven entities that invest in for-profit businesses. Growth of these businesses delivers financial returns for the fund and its investors and social returns for the communities in which they are located. With nearly one billion dollars under management and more than 80 funds active or in formation, the CDVC industry has grown substantially since CDVCA's founding in 1993.

NMVC Program: A Pilot Project to Assist Economic Development in Low-income Communities

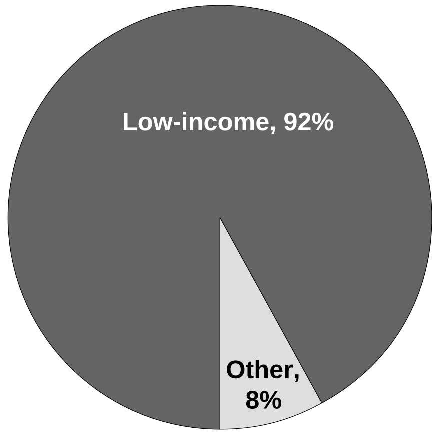
Venture capital investors provide patient capital to businesses at a critical early stage, typically after an entrepreneur has exhausted his own resources and those of "friends and family," but before traditional lenders such as commercial banks are able to step in. Access to sources of venture capital investment is an important component of growing successful businesses. To mitigate the risk of venture investing, venture capitalists build a portfolio of investments and frequently take an active and often invaluable role in the business and affairs of a company by working as an active member of a company's board of directors, working to introduce a company to suppliers, customers and strategic partners, and providing managerial advice such as recruiting.

While the last decade has seen a tremendous expansion in the amount of venture capital investment in the United States, the distribution of this resource has been concentrated on a few geographic areas such as Silicon Valley, the Route 128 corridor near Boston, and Austin, Texas. Between 1991 and 2000, 65.2% of all traditional venture capital investment dollars went to companies located in just five states – California, Massachusetts, New York, Texas, and Colorado – leaving large portions of the United States with little or no investing activity. In the first quarter of 2006, three regions, Silicon Valley, New England, and LA/Orange County accounted for 59% of all venture capital dollars invested and 49% of all reported deals.[1]

The NMVC Program was designed to create incentives for private investors with an interest in a low-income community to establish a source of venture capital to assist in economic revitalization and growth of low-income communities. Already, the program has shown tremendous success in achieving this result: as of the first quarter of 2006, 92% of all investment activity by the NMVCCs had occurred in low-income areas.

[1] PricewaterhouseCoopers and National Venture Capital Association, MoneyTree Report, Q1 2006.

Figure 1. Percent of NMVC Investments Located in Low-Income Areas as of 3/31/2006



Diversifying the economies of the nation's low-income communities will require investment expertise and a source of long-term capital for promising businesses. NMVCCs will provide market-rate returns to private sector investors, repayment with interest to the federal government, and lasting economic benefits to America's underinvested communities. Legislation to extend the NMVC Program through 2009 has been introduced by members of both parties in the current session of both the House of Representatives and Senate.

BACKGROUND: HOW THE NMVC PROGRAM WORKS

The NMVC Program was adopted in December 2001 as part of the Consolidated Appropriations Act of 2001, with the goal of creating a source of investment capital for high-growth businesses in low-income urban and rural areas, and to tie access to this program to the creation of local jobs with livable wages and benefits for low-income individuals. The NMVC Program provides guaranteed debenture financing to help capitalize local venture capital funds and grant financing to provide operational assistance to portfolio companies.

Currently, there are six New Markets Venture Capital companies ("NMVCCs") (listed on page 17 of this report) which have raised $48 million of capital from private sources, including commercial banks, wealthy individuals, foundations and insurance companies. The SBA designated these six funds in 2001 after a competitive application process; closings took place in 2002 and 2003.

Each NMVCC was required to raise at least $5 million in capital from private sources in order to quality for the program. To create an incentive for private sector investment in these previously under-capitalized regions, the federal government provided each a NMVCC ten-year loan, at nearly a 1:1 ratio, via SBA-backed debenture financing.

NMVCCs receive two types of support from the program:

- *debenture guarantees*, whereby the NMVCCs receive cash proceeds of SBA-backed debenture financing roughly equivalent to private capital raised. Debentures have a ten year-term, with no interest due in the first five years and interest-only payments in the second five years, and
- *operational assistance grants*, used to provide direct support to portfolio companies and companies being considered for investment. NMVCCs were required to raise operational assistance grants, in cash or in kind, in an amount equal to at least 30% of their regulatory capital, and were then eligible to receive cash matching grants from the SBA. NMVCCs identify promising companies in their low-income communities that need specific help to ensure their viability, and then allocate operational assistance to those the NMVCC feels can most benefit and/or that may one day be eligible for an investment by the NMVCC. Operational assistance grants have been used to help identify new markets, revamp business plans, obtain proper legal protection for intellectual property, and assist in recruitment of employees.

Investment Criteria

80% of the investments made by an NMVCC must be "Equity Investments" in "Small Enterprises" in a "Low-Income Geography."

- "Equity Investments" means common or preferred stock, limited partnership interests, warrants, options, and subordinated debt with equity features.
- "Small Enterprise" means, generally, an independent business with a net worth not greater than $18 million and revenue not exceeding $6 million per year.
- "Low-Income Geography" means (i) any census tract with a poverty rate of at least 20%, (ii) any census tract in a metropolitan area wherein 50% of households are at or below 60% of area median income, (iii) any census tract not in a metropolitan area wherein median household income does not exceed 80% of statewide median income or (iv) other specially designated communities, such as HubZones or Empowerment Zones.

The NMVC Program prohibits investments in real estate, project finance, farmland, reinvesting and relending, among other activities.

Note: CDVCA's website, www.cdvca.org, has detailed information on the NMVC Program, including the complete legislation and regulations. In addition, CDVCA staff members are available to answer questions about this report and the existing NMVCCs. Please contact Kerwin Tesdell (ktesdell@cdvca.org) or Kelly Williams (kwilliams@cdvca.org).

NMVCCs: Engaging a Community's Most Successful Businesspeople

NMVCCs unique mission, to create value for investors while helping build wealth and entrepreneurial capacity in an underinvested community, has meant that each of the NMVCCs has been able to bring together experts in the field of venture capital investing, finance, and entrepreneurship to secure a source of equity capital for entrepreneurs in communities that had been without a source of patient capital and the expertise that is unique to this kind of finance.

Invaluable to the success of these companies is the dedication of the managers of these funds, many of whom have brought their considerable experience at the nation's top financial institutions and business schools to low-income communities that previously had no provider of equity capital. In addition, each NMVCC has ties to a respected and well-established community-based organization with a broader economic and/or community development agenda. Many, such as Kentucky Highlands, a sponsor of Southern Appalachian Fund, and Coastal Enterprises of Maine, sponsor of CEI Community Venture Fund I, have been working to build and diversify their under-invested communities for decades.

The Status of the New Markets Venture Capital Program

The NMVC Program was part of a broad bipartisan initiative to target federal assistance to improve local economies in low-income urban and rural communities. The other elements of this initiative included the New Markets Tax Credit, additional empowerment zones and a new program, Community Renewal Zones. In FY 2001, Congress appropriated $22 million as a subsidy for $150 million of debenture guarantees and $30 million in grant financing to support up to fifteen NMVCCs. Half of this money was obligated to support seven companies designated in July 2001. In the fall of 2002, SBA agreed to designate seven additional NMVCCs in 2003, but Congress unexpectedly rescinded the remaining monies—$24.25 million—in the Fiscal 2003 Omnibus Appropriations Bill ($10.5 million for subsidy cost of debenture guarantees and $13.75 million for grant financing). Legislation has been introduced in the House of Representatives and the Senate to extend the NMVC Program through 2009.

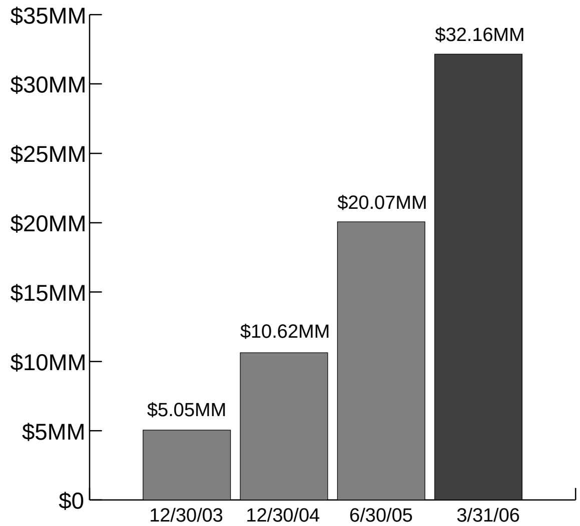
The NMVC Program differs significantly from other federal financing programs, including those administered by the SBA. While the NMVC Program is modeled in some respects on the Small Business Investment Company ("SBIC") program, the SBIC program was primarily a form of debt financing, which required that companies participating in the program have a credit history and an ability to cover debt service with a demonstrable cash flow. NMVCCs are required to provide equity capital to their investees and have a great deal more flexibility to fund companies with high growth potential. While SBIC's have penetrated low-income markets, providing more than 40% of their financing to these areas, NMVCC's are required to make 80% of their investments in low-income communities, and, unlike the SBIC program, also have the flexibility to provide operational assistance to entrepreneurs in order to ensure the viability of the business in the long-run. While the operational assistance grants add somewhat to the overall cost of the NMVC Program, this assistance helps to reduce the overall risk of the investment and protect public funds. The SBIC program does not offer this assistance.

Nor is the NMVC Program duplicative of other federal business development programs such as the Community Development Financial Institutions ("CDFI") Program administered by the Department of the Treasury. The CDFI Fund does not target equity investing as the main investment tool intermediaries must use to finance their portfolio. Nor do CDFIs tie investments to operational assistance, provide a source for technical assistance, or receive the leverage provided by NMVC debentures. Therefore CDFIs alone cannot be relied on as a way to increase the type of patient capital needed most by small enterprises located in low-income areas.

PROGRAM IMPACTS: FINANCING, JOBS, AND GROWTH FOR LOW-INCOME COMMUNITIES

As of March 31, 2006, the six NMVCCs had invested approximately $32.2 million into 75 companies, 69 of which (92%) are located in low-income areas.

Figure 2. Cumulative NMVC Companies Investment Activity 2003-2006



The rate of investment activity has shown a marked increase each year of the funds' operation. All funds reported increased investment activity in the current year, and two funds expect that they soon will be fully invested by year's end.

While venture capital investment is a long-term economic development strategy, the impact that the NMVCCs have had on employment in the low-income communities they serve has already been significant.

Figure 3. Job Creation by NMCCC Investments as of 3/31/06

Number of jobs *maintained and created*	1,626
Number of jobs *created after investment*	368
Number of jobs at *companies receiving operational assistance*	911

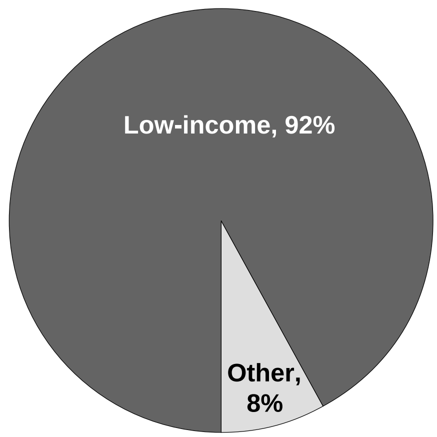
EXAMPLES OF INVESTMENT ACTIVITY BY NEW MARKETS VENTURE CAPITAL COMPANIES:

Funding the Emerging Natural Products Industry in Vermont, New Hampshire and Rural Maine: ***CEI Community Ventures Fund LP ("CEICV")*** Recent investments include a baker of shelf-stable pizza crusts, located in a low-income area 20 miles outside Concord, New Hampshire, and a new equity infusion for one of Maine's oldest and most beloved seafood packagers, located in economically depressed Downeast, Maine. With CEICV's expertise and operational assistance funding, both companies are focusing their marketing on rapidly expanding high-end natural food distribution channels such as Whole Foods Markets.	**Enabling Promising Entrepreneurs to Locate their Businesses in their Communities:** ***Penn Ventures*** Penn Ventures did not flinch when it was approached by Hard Bikes, a new manufacturer of custom motorcycles with firm sales commitments for its unique products. The entrepreneurs were determined to locate the business in Tyrone, Pennsylvania, the hometown of one of the founders and a former oil and steel town now suffering high unemployment. Penn Ventures' commitment encouraged other investors to co-invest and properly fund the company. The company expects to create 30 well-paid jobs over the next two years.
Investing in Innovative Technology and Creating Skilled Jobs in Baltimore's Low-Income Neighborhoods: ***New Markets Growth Fund ("NMGF")*** NMGF's mission is to act as economic growth catalyst by leveraging intellectual property innovations from universities and federal laboratories, assembling strong management teams, and building high growth companies with skilled labor forces in low-income neighborhoods in and around Baltimore, Maryland. Recent investments include a company with proprietary geo-spatial mapping software for the homeland security market and a technology company that provides monitoring, mapping and reporting for mobile workforces.	**Helping to Diversify a Rural and Underinvested Economy:** ***Southern Appalachian Fund*** **("SAF")** SAF's target market encompasses low-income communities in Kentucky, Tennessee, and the Appalachian counties of Georgia, Alabama, and Mississippi. SAF expects to be fully invested by the end of 2006 – in a geography long overlooked by traditional venture capital investors, SAF has been able to invest in less than 4% of all the opportunities presented to it since it began investing activities in 2003. SAF's founders and managers are preparing to launch another equity investment vehicle, Meritus Ventures, that will serve an overlapping rural investment area.

Geography

The jobs created and maintained by the NMVCCs are located overwhelmingly in low-income communities and frequently are headed by local entrepreneurs, for whom the program represents a unique opportunity.

Figure 4. Percent of NMVC Investments Located in Low-Income Areas as of 3/31/2006



Examples include the low-income areas of and surrounding Philadelphia, PA, served by Murex Investments I, LP ("Murex"): As an aggregate, in the low-income areas that constitute Murex's operating region, an average of 26.8% of the population lives below the poverty level. Prospects for the region's low-income residents have even worsened over the past two years. From *The Philadelphia Inquirer*, August 31, 2005: "In Philadelphia, which has been losing jobs and residents for fifty years, 25% of its estimated 1.41 million residents lived below the federal poverty line last year, up from 22% a year earlier. About 35% of Philadelphia children were living in poverty, up from 28% in 2003. Those figures pushed Philadelphia into the No. 9 spot among poorest US big cities and No. 5 among US counties, its worst showing in at least three years."

Other Social Metrics

Four times each year, the NMVCCs are required to submit to the SBA a *Social, Economic or Community Economic Development Impact Statement*, which requires that the following information be collected from portfolio companies:

1. The number and percentage of employees residing in a low-income geography, as well as a breakdown of employees by wage category;
2. Percentage of employees provided with medical coverage and offered a pension plan other than Social Security, savings plan or 401K plan;
3. Percentage equity ownership by residents of low-income areas; and

4. Real estate and property taxes paid to local governments.

Data on job creation and retention is also collected on recipients of operational assistance awards.

OPERATIONAL ASSISTANCE GRANTS: ENSURING PORTFOLIO COMPANY PROFITABILITY AND PROTECTING PUBLIC INVESTMENT

As of March 31, 2006, the six NMVCCs had provided over $6.7 million of operational assistance to 163 companies, 124 of which were located in low-income areas. Providing operational assistance to entrepreneurs is an essential aspect to the work of the NMVCCs. By working with these entrepreneurs early in the business cycle and providing "how-to" guidance, NMVCCs help businesses become successful, reducing the overall risk to the public sector's investment.

The NMVC operational assistance grants also help entrepreneurs become "investment ready" by funding business plan development, market research, executive recruiting, legal assistance, marketing expertise, public relations support and high-tech services. The NMVCCs have formal partnership agreements with preeminent providers of these services in their areas, including well-regarded universities and blue-chip private sector firms.

CEI Community Ventures Fund LLP ("CCVF") provided an operational assistance grant to create an improved business plan for a Vermont importer of organic fair trade products. The company attributes the quality of that business plan with its success in securing $5.6 million of debt financing. CCVF may consider making an equity investment into the company at some point in the future.

CCVF also provided an operational assistance grant to a Maine-based software company in order to fund a business plan. CCVF ultimately decided not to invest in the company, but subsequent to completion of that plan, the company secured $1.2 million of equity financing from other providers of equity capital.

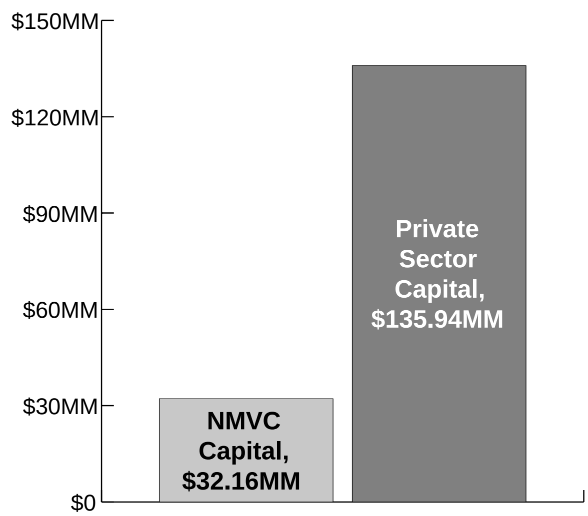
Penn Ventures made an operational assistance grant to a small industrial mat manufacturer that is located in Titusville, Pennsylvania, a town of high unemployment in the northwestern part of the state. The grant was used to pay for an analysis of the company's order fulfillment and production processes. As a result of this analysis, the company:

- invested over $85,000 in expanding production capabilities, and sales reached $4.5 million in 2004 and are on track for a 20+% increase in 2005;
- hired five additional production workers and plans to hire an additional salesperson; and
- is negotiating with sales representatives in Australia and Europe.

A HAPPY EARLY RETURN: PRIVATE SECTOR LEVERAGE

The six NMVCCs have helped attract private capital to their portfolio companies, effectively leveraging their federal assistance for the benefit of the low-income communities they serve: as of March 31, 2006, the 75 NMVC Program investee companies had also received $136 million in funding from other, third-party providers of capital, including private individual "angel" investors and venture capital funds, a leverage ratio of more than 4 to 1.

Figure 5. Total NMVC Companies Investment vs. Private Sector Capital Leveraged as of 3/31/06



Lynn Gellerman, President of Adena Ventures, an NMVCC in Ohio that serves central Appalachia, states: "For every dollar that Adena has invested in [its] companies, five dollars have been invested by other venture firms – nine other venture funds from both coasts, six states and three counties. In attracting this outside capital, it is clear that Adena's deals are truly meeting the test of the marketplace; an important accomplishment for a new fund in a new market."

Mark Grovic, Managing Director of New Markets Growth Fund ("NMGF"), located in College Park, Maryland, notes that his fund "…lead[s] other funds into investments into neighborhoods that they would typically ignore at a ratio of $6 to every $1 of our dollars invested." NMGF recently led a syndicate of private sector investors specializing in security companies into an investment in FortiusOne, a company with unique geo-spatial mapping software.

This private sector leverage would not occur without the possibility of high financial returns. NMVCC managers search for the highest growth companies and target financial returns of 20 to 40% for their investors. Managers also assess the potential for an exit from the investment within three to seven years, while maintaining their commitment to economic growth in their low-income investment areas. While none of the NMVCCs have been investing long enough to have a significant number of exits from these investments, Southern Appalachian Fund ("SAF") recently exited an investment made 14 months earlier in Eonstreams, Inc., a provider of Internet advertising insertion and streaming solutions, based in downtown Knoxille, Tennessee. Eonstreams was purchased by VitalStream Holdings, Inc., a leader in audio and video streaming, for stock, resulting in an (unrealized) IRR of 262% to SAF. [2]

> *SAF was the sole investor in Eonstreams' Series A equity round, which closed in March 2005. SAF received a seat on Eonstreams' board of directors and also provided operational assistance funds which were used for market research, technical writing and documentation and intellectual property assessment. The proceeds of SAF's investment were utilized by the company for finalization and deployment of proprietary and industry-leading ad-insertion technology, appropriate intellectual property protection including patent applications and marketing.*
>
> *Eonstreams is located in a low-income census tract that is also an Empowerment Zone, in downtown Knoxville, Tennessee. At the time of SAF's investment, Eonstreams employed 11 people, and at the time of the exit and acquisition, Eonstreams employed 16 people. The expectation following the VitalStream acquisition is that all employees will remain with the company in Knoxville, and at least six additional employees will be added to the Knoxville office within the next 90 to 180 days.*

[2] Under the terms of the sale, the Eonstream shareholders are not allowed to liquidate their VitalStream stock for at least one year. At the purchase price, SAF's 18-month investment in Eonstreams has produced a 262% (unrealized IRR). This figure will change over time, and the IRR and ROI for this investment will not ultimately be realized for at least one year, during which time VitalStream's stock price is subject to change.

CONCLUSION

The NMVC Program has thus far been a great success, proving that it is possible to find and invest in strong, high-growth companies in low-income, underinvested areas of America. These investments are creating large numbers of good jobs for members of the communities where these funds are located, and at the same time making investments that will produce strong financial returns for private sector investors and repayment of SBA loans. NMVCCs are an important component of a comprehensive economic development agenda for an underinvested region, providing a unique financial service and invaluable expertise and resources to promising companies. The majority of the nation's low-income communities are without a local provider of equity capital: a reauthorization of the NMVC Program will unlock a powerful engine of economic growth and opportunity.

This report was produced by the Community Development Venture Capital Alliance (www.cdvca.org), which is the association of community development venture capital industry.

NEW MARKETS VENTURE CAPITAL COMPANIES

Name	Adena Ventures, LP	CEI Community Ventures Fund, LLC	New Markets Growth Fund	Murex Investments I, LP	Penn Venture Partners	The Southern Appalachian Fund
Capital Under Management	Private Capital: $12.5 million Avail. For Investment: $21 million Operational Assistance: $7.5 million	Private Capital: $5.0 million Avail. For Investment: $8.1 million Operational Assistance: $3.0 million	Private Capital: $10.0 million Avail. For Investment: $19.0 million Operational Assistance: $6.0 million	Private Capital: $5.5 million Avail. For Investment: $7.8 million Operational Assistance: $3.3 million	Private Capital: $10.0 million Avail. For Investment: $21.0 million Operational Assistance: $3.0 million	Private Capital: $5.0 million Avail. For Investment: $6.75 million Operational Assistance: $3.0 million
Geography	Kentucky (northeast) Maryland (west) Ohio (southeast) West Virginia	Maine New Hampshire Vermont	Maryland (non Appalachian counties) Virginia (north) Washington DC	Delaware (north) New Jersey (south) Pennsylvania (southeast)	Pennsylvania (central)	Alabama (north) Georgia (north) Kentucky Mississippi (north) Tennessee
Target Investments	Diverse industries	Diverse industries	Diverse industries with focus on technology	Manufacturing, environmental, services		
Partnerships/Affiliations	Ohio University, Mountain Maryland Entrepreneurial Development Center, University of Charleston	Coastal Enterprises, Inc.	University of Maryland Smith School of Business	Resources for Human Development, Inc., University of Penn. Wharton School of Business	Ben Franklin Technology Partners, Zero Stage Capital Co.	Kentucky Highlands Investment Corporation, Technology 2020
Contact	Lynn Gellermann 143 Technology & Enterprise Building Ohio University Athens, OH 45701 V: (740) 597-1470 F: (740) 597-1399 gellermann@adenaventures.com	Michael Gurau 2 Portland Fish Pier, Suite 201 Portland, ME 04101 V: (207) 772-5356 F: (207) 772-5503 mhg@ceicommunityventures.com	Mark Grovic 2518 Van Munching Hall College Park, MD 20740 V: (301) 405-9514 F: (301) 314-7971 mgrovic@rhsmith.umd.edu	Joel Steiker and Jacob Gray 4700 Wissahickon Ave., Suite 126 Philadelphia, PA 19144 V: (215) 951-0300 F: (215) 849-7360 joel@murexinvests.com;Jacob@murexinvests.com	Gene Peck 132 State Street Harrisburg, PA 17101 V: (717) 236-2300 F: (717) 236-2350 gpeck@pennventures.com	Grady Vanderhoofven 1020 Commerce Park Drive Oakridge, TN 37830 V: (865) 220-2020 F: (865) 220-2030 grady@southappfund.com

NMVC COMPANIES UPDATE (THROUGH MARCH 31, 2006)

	Totals	# Reporting
Capital Under Management		
Private Capital Raised	**$48,000,000**	6
Capital Available for Investment	**$83,650,000**	6
Amount Invested and Reserves as of 6/1/06	**$48,360,000**	6
Operational Assistance Pool		
Private OA Raised (cash & in-kind)	**$12,900,000**	6
SBA Match	**$12,900,000**	6
Total	**$25,800,000**	6
Investment Activity		
During 2003	**$5,050,000**	6
During 2004	**$10,623,361**	6
During 2005	**$8,231,192**	5
Total @ 3/31/06	**$32,161,698**	6
# Companies		
During 2003	**11**	6
During 2004	**18**	6
During 2005	**14**	5
Total @ 3/31/06	**75**	6
# in Low-income areas		
During 2003	**10**	6
During 2004	**16**	6
During 2005	**14**	5
Total @ 3/31/06	**69**	6
Operational Assistance Activity		
During 2003	**$1,440,294**	6
During 2004	**$2,238,743**	6
Total @ 3/31/06	**$6,720,574**	6
Companies Receiving Operational Assistance:		
Total Companies @ 3/31/06	**163**	6
Total in Low-income areas @ 3/31/06	**124**	6
Impacts @ 3/31/06		
Number of Employees **Maintained and Added**	**1,626**	6
Number of Employees Added after Investment	**368**	6
Number of Employees at OA Companies	**911**	6
Private Sector Leverage: Amount invested by traditional providers of equity capital	**$135,944,342**	6

FUND PROFILES

Adena Ventures, L.P.

20 East Circle Drive, Athens, Ohio 45701
Telephone: (740) 597-1722
Fax: (740) 597-1399
Website: www.adenaventures.com
Email: gellermann@adenaventures.com

Key Personnel :
Lynn Gellermann, Partner
Andy Zulauf, Partner
David Wilhelm, Partner
Jakki Haussler, Partner
Tom Parkinson, Partner
Jeff Doose, Partner

Established:
April 24, 2002

Total Committed Capital Available for Investment:
$21 million

Amount Invested and Reserves as of 6/1/06:
$13.3 million

Geographic Focus:
Central Appalachia (see details below)

Strategic Partners:
Ohio University
University of Charleston
Cornerstone Partners
Maple Creative
Fahlgren-Mortine
Others (see below)

Background
Adena Ventures is the nation's first New Markets Venture Capital Company. The Fund provides both investment capital and operational assistance to smaller enterprises and entrepreneurs in the Fund's target region of central Appalachia, which includes: southeastern Ohio, West Virginia, western Maryland and northeastern Kentucky. The fund is backed by twelve institutional investors, the U.S. Small Business Administration and several prominent strategic partners from both the public and private sectors, including: Ohio University, the University of Charleston, Maple Creative, PricewaterhouseCoopers and Cornerstone Partners, Inc.

Social Mission
Adena's goal is to promote shared and sustainable economic growth in the Central Appalachian region while generating market-rate returns for its investors.

Investment Information
Adena invests in diverse sectors, including information technology, healthcare and e-learning. Adena invests between $500,000 and $2.5 million in early and growth stage companies. Adena seeks to co-invest with other institutional investors when appropriate.

Adena and its strategic partners also provide significant operational assistance resources to companies before, during and after investment. Examples of operational assistance services, which are provided at no cost to the portfolio concerns, include: marketing, executive recruiting, business planning, technology assessment, and more.

To date, Adena has invested in seven companies operating in diverse industries ranging from cutting-edge technology to more traditional services. Adena has also assisted nearly fifty companies with its operational assistance program. Adena's portfolio includes leading edge online game and security software companies as well as next generation service companies with applied technologies in the distance learning, corporate e-training and healthcare industries. The roster includes: Butterfly.net, SecureMethods and Vested Health of West Virginia, as well as Ed Map and Visum of Ohio.

CEI Community Ventures Fund (CCVF)
Two Portland Fish Pier, Suite 201
Portland, ME 04101
Telephone: (207) 772-5356
Fax: (207) 772-5503
Website: www.ceicommunityventures.com

Key Personnel:
Michael H. Gurau, President
Michael C. Burgmaier, Principal
Jennifer K. Boucher, Fund Administrator

Established:
2001

Capital Available for Investment:
$8.1 million

Amount Invested and Reserves:
$4.11 million (as of June 1, 2006)

Geographic Focus:
Maine, New Hampshire, and Vermont.

Background:
CEI Community Ventures is a for-profit subsidiary of Coastal Enterprises, Inc. (CEI).

Social Mission:
The Fund seeks a triple-bottom line, aiming for financial, social (jobs/benefits), and environmental benefits.

Investment Information
CEI Community Ventures focuses its investing on businesses located in Maine, New Hampshire, and Vermont. The Fund invests in companies at both early and later stages of development and across sectors.

In 2003, CEI Community Ventures Fund (CCVF) led a $600K funding round in a woman-founded, women-led consumer products company in Vermont with $200K of its own capital. Subsequently, CCVF has invested another $400K in the company, generating an additional $400K from additional investors. The company had been struggling to raise capital and, prior to the initial investment, was located outside of a target census area. As a condition of investment, the company moved to new offices in a qualified area of Vermont and commenced its expansion. Since the initial investment, the company has more than quadrupled its sales, something it would not have been able to do without CCVF's financing. CCVF also supported, post-equity financing, an operational assistance grant to fund a custom software application which has helped the company to better manage financial and accounting elements of its business. With the support of its equity financing, CCVF helped the company to secure a line of credit from a local bank, something which was not possible prior to CCVF's financing.

In September 2005, CCVF led a $800K financing with $500K of its capital into an all-natural manufacturer of shelf-stable pizza crusts in a low-income areas 20 miles outside of Concord, NH. Prior to investing, CCVF provided OA grants to help develop a business plan, key performance indicators, and a new brand name and strategy for the company. Just after the investment, the company debuted with its new brand at the Natural Products Expo East show in Washington, DC. From among over 700 entrants, CCVF's portfolio company was selected in the top 30 as "Best New Product" and in the top five for "Most Innovative Product." Sales in 2005 were 100% higher than in 2004 and 2006 sales are at a pace to be 250% higher than in 2005.

In November 2005, CCVF closed its fourth equity investment in another future leader in the all-natural food space. The company is located in an economically depressed area in Downeast, Maine and makes premier, high-end shelf stable seafood products such as clam chowder and lobster bisque. The company is undergoing rapid growth in such natural food channels as Whole Foods Market and Wild Oats. CCVF used OA funds to vastly improve the company's business plan and develop a five-year "go-to-market" bottoms-up sales and marketing strategy.

CCVF has also used OA for the benefit of current non-portfolio companies. For example, CCVF provided an OA grant to support a business plan for a Vermont importer of organic/fair trade products. The company attributes the quality of that business plan with its success in securing $5.6 million of debt financing. CCVF may consider making an equity investment into the company at some point in the future.

CCVF also provided an OA grant to a Maine-based software company in order to fund a business plan. CCVF ultimately decided not to invest in the company, but subsequent to completion of that plan, the company secured $1.2 million of equity financing from other providers of equity capital.

To build deal flow in Northern New England, CCVF uses a unique blend of networking and pro-active sourcing:

- **Networking and marketing:** CCVF actively markets its fund to groups across the region–economic development organizations (EDOs), other venture capital funds, banks, and professional services organizations (PSOs). CCVF has held over thirty presentations on using venture capital as a tool for financing growth in three states to educate local EDOs, entrepreneurs and PSOs. After launching the equity fund in April 2003, CCVF received significant press coverage, helping increase awareness and create deal flow.

- **Pro-active sourcing:** Networking and marketing help identify companies *already* seeking funds from the venture capital community. CCVF supplements this approach by identifying and approaching companies of interest *before* they approach the venture capital market. Using business directories, chamber of commerce listings, local newspapers and other methods, CCVF identifies opportunities through this direct approach, generating attractively priced, proprietary deal flow. To maximize the pro-active sourcing effectiveness of its small team, CCVF has integrated corporate directory databases for the tri-state region with mapping software that allows CCVF to overlay company locations on a map with identified distressed communities. CCVF can then immediately access data on companies within our target communities to review for sector/business, size, key personnel, contact information and more. The alternative—physically leafing through directories page by page—is time consuming, inefficient and tedious.

CCVF considers its pro-active deal origination program critical to the fund's success. As few entrepreneurs are likely to reach out to venture capital funds in non-traditional rural markets, it is critical for CCVF to find these entrepreneurs and educate and inform them on the use of venture capital as a tool for growth. CCVF believes that its pro-active sourcing program is unparalleled in the breadth of its reach (chambers of commerce, regional newspapers, business directories, etc) and in its use of technology.

Currently, in part due to its pro-active sourcing activities, CCVF is in the process of term sheet negotiation with four additional potential portfolio companies, all of which will be deals led by CCVF.

Murex Investments I, LP

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Key Personnel:
Joel Steiker, Business Developer
Jacob Gray, Development Director

Established:
2003

Capital Available for Investment:
$7.8 million

Operational Assistance Pool:
$3.3 million

Amount Invested and Reserves:
$3.61 million as of 3/31/06

Geographic Focus:
Philadelphia region, including parts of Pennsylvania, Delaware, and New Jersey.

Background:
Murex Investments I, LP is a US Treasury-certified Community Development Financial Institution and a wholly owned subsidiary of Resources for Human Development, Inc., (RHD), a nonprofit organization headquartered in Philadelphia with over 3000 employees in seven states and an annual operating budget of $125 million. RHD provides infrastructure support to Murex, including financial oversight, office space in RHD's headquarters, and technical and administrative services.

Social Mission
The Funds seek to create jobs and wealth for low-income people, targeting businesses that provide benefits and living wages, and opportunities for employee ownership. The general consensus is that Murex's investment geography, especially dependent on the manufacturing sector for living wage jobs, has not recovered fully from the 2002 recession. Prospects for the region's low-income residents have even worsened over the past two years. The US Census Bureau's Current Population Survey and its American Community Survey for 2003 and 2004 reveal that in Philadelphia, which has been losing jobs and residents for fifty years, 25% of its estimated 1.41 million residents lived below the federal poverty line last year, up from 22% a year earlier. About 35% of

Philadelphia's children were living in poverty, up from 28% in 2003. Those figures pushed Philadelphia into the No. 9 spot among poorest US big cities and No. 5 among US counties, its worst showing in at least three years.

Investment Information
Murex makes investments in a region around Philadelphia including parts of Pennsylvania and New Jersey. The Fund seeks investments in high-value added sectors such as manufacturing and avoids businesses that would create low-wage retail jobs. The Fund typically invests between $50,000 and $500,000.

While pursuing its social goals, Murex targets emerging companies with strong management, the highest financial return and the possibility of an exit within five years. Since beginning operations in 2003, more than 700 potential deals have been referred to Murex from companies located in its investment geography. For every request for operational assistance that Murex is able to meet, approximately 50 are received. Since investing activities began, Murex NMVC has completed 36 operational assistance projects having a value of over $700,000.

Investors in the Fund include MBNA Bank, PNC Bank, Barred Rock Fund, RHD, and the Bryn Mawr Trust. Operational assistance grantors include the Commonwealth of Pennsylvania, the City of Philadelphia, First Union Regional Foundation, Conectiv, RHD, and The Shefa Fund.

Penn Ventures Partners, LP

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Contact:
Dean M. Kline

Fund Established:
2003

Key Personnel:
Gene R. Peck, Director
Dean M. Kline, Deputy Director

Capital Available for Investment:
$21 million

Amount Invested and reserves as of 6/1/06:
$8 million

Geographical Focus:
34-county region of central and northern Pennsylvania

Background:
The General Partner of Penn Ventures is a joint venture with Ben Franklin Technology Center of Central and Northern Pennsylvania and Zero Stage Capital Company. Penn Venture Partners is managed by Penn Ventures Management Company, L.L.C., which is a wholly-owned subsidiary of Zero Stage Capital Company.

Social Mission:
The Penn Venture Partners Fund is a licensed New Markets Venture Capital Company. It seeks to improve the lives of Pennsylvania residents by creating good jobs for low-income and rural people with a special eye to creating opportunities for minorities and for creating jobs with living wages. The creation and retention of good jobs, the successful development of promising start-ups, the growth of established companies, new approaches to community challenges, and a strong economic climate for Pennsylvania are all goals of the Fund.

Investment Information:
The Fund invests in a 34-county region of Pennsylvania that is primarily rural and low-income. It focuses on manufacturing, energy, information technology, electronics, and

materials-related industries. The Fund avoids seed- and early-stage investments, preferring to invest in businesses in later stages of development (revenues between $1 million and $25 million). Investments typically range from $500,000 to $2 million. The PVP Fund will look to co-invest when appropriate.

Portfolio Company – Hardbikes, Inc.
Hardbikes Inc. is a newly-formed manufacturer of custom motorcycles. The two founders are well-positioned to make the company successful, both in terms of financial return to investors and employment creation for its community. One of the founders is a recognized expert in manufacturing organization, having accomplished the establishment of efficient production at two previous companies. The other co-founder is a veteran of the custom cycle business and highly regarded within that industry. Prior to manufacturing, Hardbikes already had firm sales commitments for a significant number of cycles. The founders were also dedicated to producing their cycles in the one of the founder's hometown: Tyrone, Pennsylvania, a city which thrived on oil and steel, but is now suffering under high unemployment. Obtaining the capital in excess of $4 million needed to put Hardbikes on firm footing was complicated by the choice of location. Penn Ventures saw the value of the enterprise and committed to be the primary investor. The fund's presence in the deal encouraged other investors to join the syndication and properly fund Hardbikes. As such, the community of Tyrone will immediately gain this business and investment, plus 10 well-paid jobs. Within two years, it is projected that there will be 30 employed at the Hardbikes' facility in Tyrone.

Operational Assistance Recipient – AlternaMats
The OA program that is administered by Penn Venture Partners has helped many small enterprises in Pennsylvania that otherwise would not have received financial assistance. One of these companies is a small industrial mat manufacturer that is located in Titusville, PA: a town of high unemployment in the northwestern part of the state. The OA program paid for a project that analyzed their order fulfillment and production processes. The results of this project enabled the company to make some key operational and strategic decisions including the following:

- The company invested over $85,000 in expanding production capabilities, and sales reached $4.5 million in 2004 and are on track for a 20+% increase in 2005.
- The company has hired five additional production workers and is also planning on hiring another salesperson.
- The company is negotiating with sales representatives in Australia and Europe.

New Markets Growth Fund

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Key Personnel:
Mark Grovic, Managing Director
Robb Doub, Managing Director
Done Spero, Managing Director

Established:
March, 2003

Capital Available for Investment:
$19 million

Operational Assistance Pool:
$6 million

Amount Invested and Reserves:
$14.0 million as of June 1, 2006

Geographic Focus:
Maryland, Virginia and Washington, D.C.

Background:
Established in April 2003, the New Markets Growth Fund (NMGF) makes equity investments and provides operational assistance to both early-stage ventures and small to mid-sized high growth companies located in Maryland, Washington DC and Northern Virginia.

NMG Fund seeks opportunities where either startups or more mature companies can commercialize innovative products and processes into domestic and foreign markets. The Fund is most interested in companies that have market validation of their product, have been through the development cycle and are ready to ship product. The Fund also focuses on later stage businesses looking for expansion capital to address new markets both vertical and geographic.

Social Mission:
NMGF focuses on early stage companies, backing visionary entrepreneurs and cutting edge technologies prior to their acceptance by other capital providers. The Fund acts as a

strong economic development model by leveraging break-through intellectual property from universities and federal labs, assembling strong management teams, and building high growth companies with a highly skilled labor force in low-income neighborhoods. NMGF leads other funds into investments into neighborhoods that would typically ignore at a ratio of $6 to every $1 of our dollars invested.

Investment Information:
The Fund expects that it will invest in approximately 20 companies with individual investments ranging from $200,000 to $2,000,000. Investors in NMG Fund include the SBA, private financial institutions and high net worth individuals.

Portfolio companies to date include:

- Navtrak, which provides monitoring, mapping and reporting for mobile workforces;
- Lightningcast, a leader in delivering relevant advertising content to the Internet broadcast world;
- BD Metrics, which provides software that streamlines the business development process through automation; and
- BioSurface Engineering Technologies, Inc. that leverages over 15 years of research and development in chemistries designed to control the body's biologic response to medical device implants.

NMGF's last investment in FortiusOne focuses on the homeland security market and complex infrastructure vulnerability assessments through geo-spatial mapping software. NMGF helped Fortius license the technology from George Mason University, and used operational assistance fund to recruit their current CEO and improve their intellectual property strategy. NMGF then lead a strong syndicate of investors who specialize in the security space to create a well-funded company.

The Southern Appalachian Fund (SAF)

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Key Personnel:
Ray Moncrief, President, Southern Appalachian Management Company, LLC and Fund Manager
Grady Vanderhoofven, Executive Vice-President, Southern Appalachian Management Company, LLC and Assistant Fund Manager
Brenda McDaniel, Chief Financial Officer
Melissa Muendel, Program Director, Operational Assistance

Established:
2003

Capital Available for Investment:
$6.5 million

Amount Invested:
$5.34 million as of June 1, 2006

Geographic Focus:
Kentucky, Tennessee, and the Appalachian counties of Georgia, Alabama, and Mississippi

Background:
The Southern Appalachian Fund (SAF), with offices in Oak Ridge, Tennessee and London, Kentucky is a New Markets Venture Capital Company, providing equity capital and operational assistance for early-stage and growth companies in low income areas in Kentucky, Tennessee and the Appalachian counties of Mississippi, Alabama and Georgia.

Social Mission:
The Fund's mission is to generate market-rate returns for its investors while promoting shared and sustainable economic development throughout its target region. SAF seeks to promote economic development and the creation of wealth and job opportunities in low-income geographic areas and among individuals living in such areas.

Investment Information:
The Southern Appalachian Fund (SAF) invests in early and expansion-stage manufacturing, technology, and software companies, and seeks to invest between $200,000 and $600,000 in each of its portfolio companies. It expects to hold a typical investment for four to seven years. The fund lists likely exit scenarios as an external sale/merger or an internal management buyout. Generally, SAF seeks to co-invest in rounds led by itself or other institutional investors.

Portfolio Summary

NuMarkets, LLC – Etowah, TN – population 3600, rural and low income (www.numarkets.com)

- Date of initial investment: February 2004
- # of employees at time term sheet was signed: 11
- # of employees today: 30 (56.67% of whom live in low income census tracts)
    - Includes employees in Etowah, Chattanooga, Knoxville, and Cleveland (all in Tennessee)
    - Indirect employees: 19 (these employees are located at franchise stores in Knoxville, TN, Frazer, PA, and Salt Lake City, UT)

Smart Furniture, Inc. – Chattanooga, TN – low income, HUB Zone (www.smartfurniture.com)

- Date of initial investment: August 2004
- # of employees at time term sheet was signed: 1
- # of employees today: 17 (23.53% of whom live in low income census tracts)
    - All of the employees are located in Chattanooga, TN.

Tricycle, Inc. – Chattanooga, TN – low income, HUB Zone (www.tricycleinc.com)

- Date of initial investment: August 2004
- # of employees at time term sheet was signed: 3
- # of employees today: 24 employees in the United States (16.67% of whom live in low income census tracts)
    - All of the employees (in the US) are located in Chattanooga, TN.
    - 9 employees in the United Kingdom (Tricycle, Ltd. is a wholly-owned subsidiary of Tricycle, Inc.)

Eonstreams, Inc. – Knoxville, TN – low income, Urban Empowerment Zone (www.eonstreams.com)

- Date of initial investment: March 2005
- # of employees at time term sheet was signed: 11
- # of employees today: 17 (none live in low income census tracts)
    - 15 of the employees are located in Knoxville, TN.
    - 2 of the employees are located in Texas.

SemiSouth, Inc. – Starkville, MS – rural and low income (www.semisouth.com)

- Date of initial investment: May 2005
- # of employees at time term sheet was signed: 21
- # of employees today: 42 (92.85% of which live in low income census tracts)
    - All of the employees are located in Starkville, MS

Protein Discovery, Inc. – Knoxville, TN – low income, Urban Empowerment Zone (www.proteindiscovery.com)

- Date of initial investment: June 2005
- # of employees at time term sheet was signed: 4
- # of employees today: 11 (9.09% of whom live in low income census tracts)
    - Nine of the employees are located in Knoxville
    - One of the employees is located in Nashville
    - One of the employees is located in California

Tier1 Performance Solutions, Inc. – Covington, KY – low income, HUB Zone (www.tier1performance.com)

- Date of initial investment: November 2005
- # of employees at time term sheet was signed: 15
- # of employees today: 22 (4.55% of which live in low income census tracts)
    - All of the employees are located in Covington

BBR Wireless Management, Inc. – Louisville, KY – low income, HUB Zone (www.bbrwm.com)

- Date of initial investment: February 2006
- # of employees at time term sheet was signed: 10
- # of employees today: 10 (none live in low income census tracts)
    - 9 of the employees are located in Louisville
    - 1 of the employees is located in Atlanta