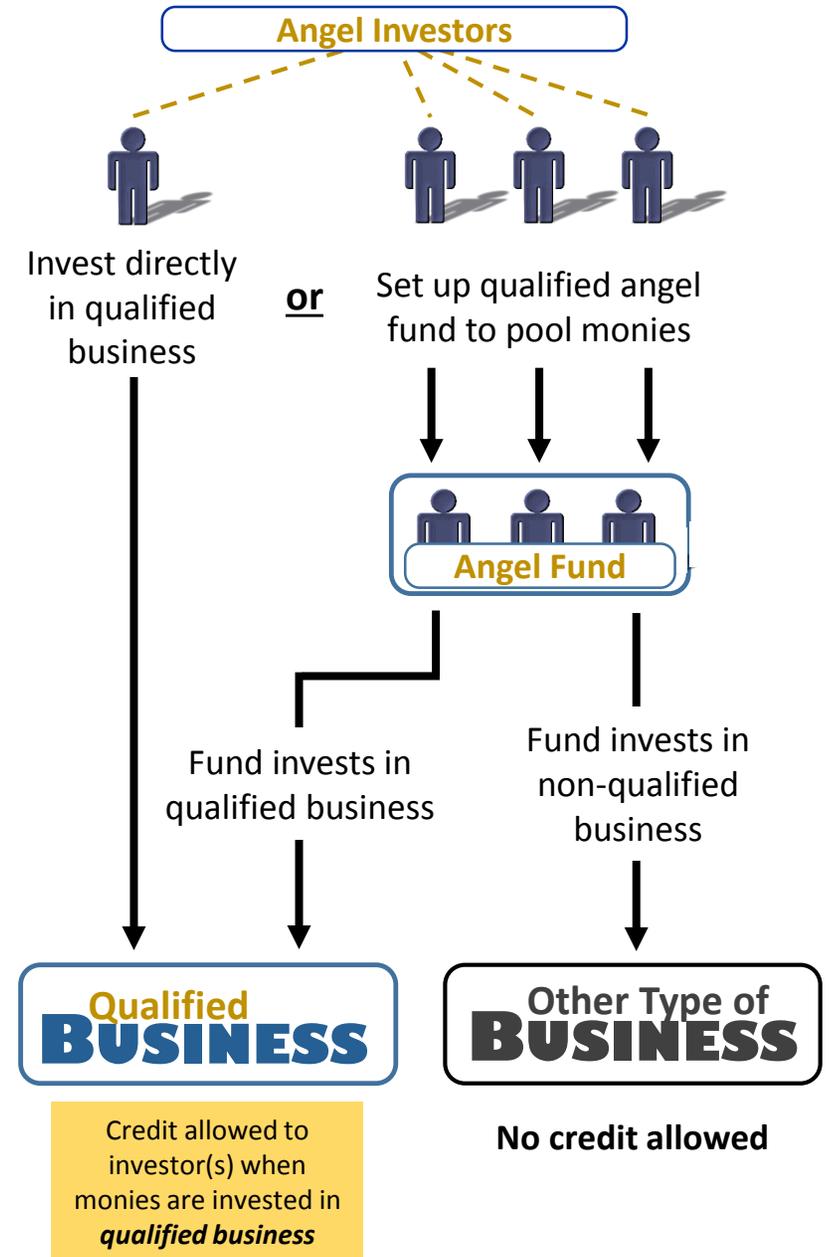
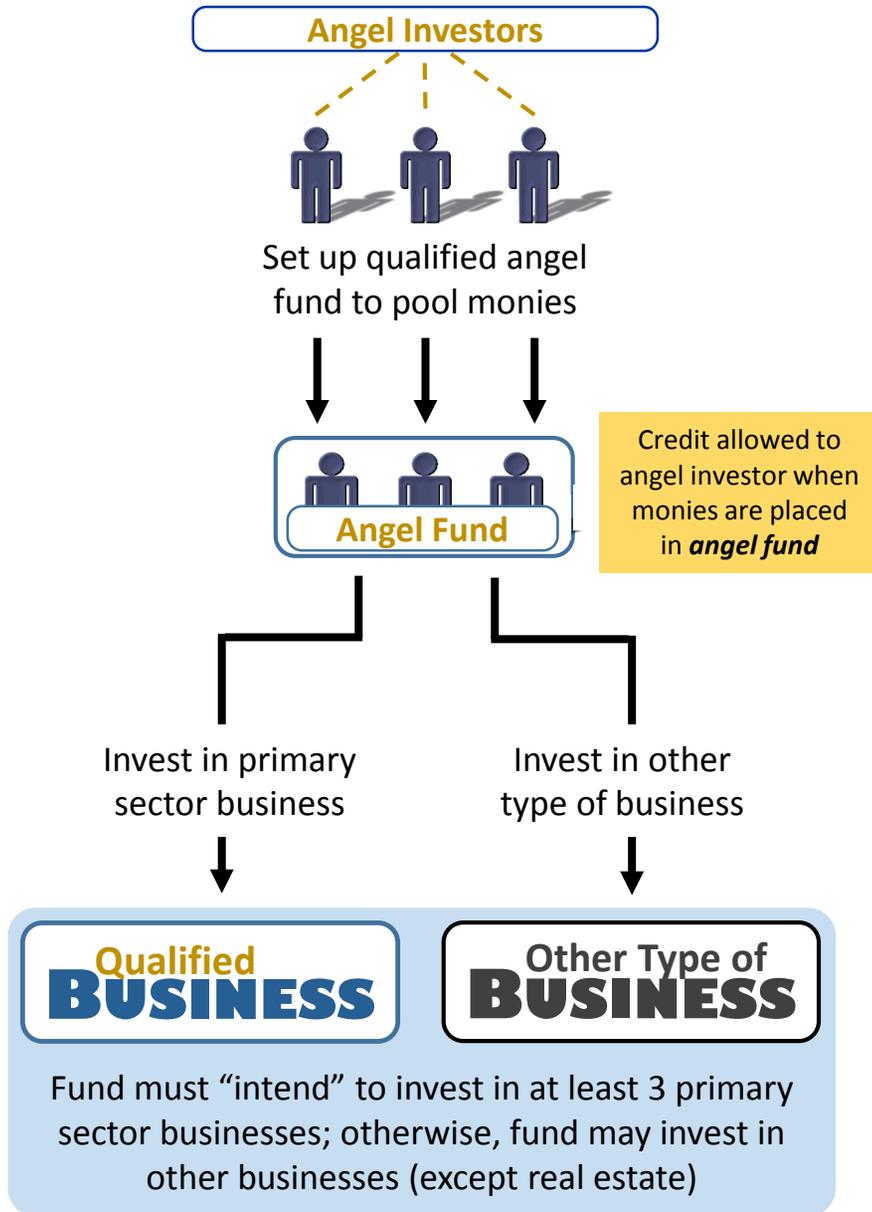
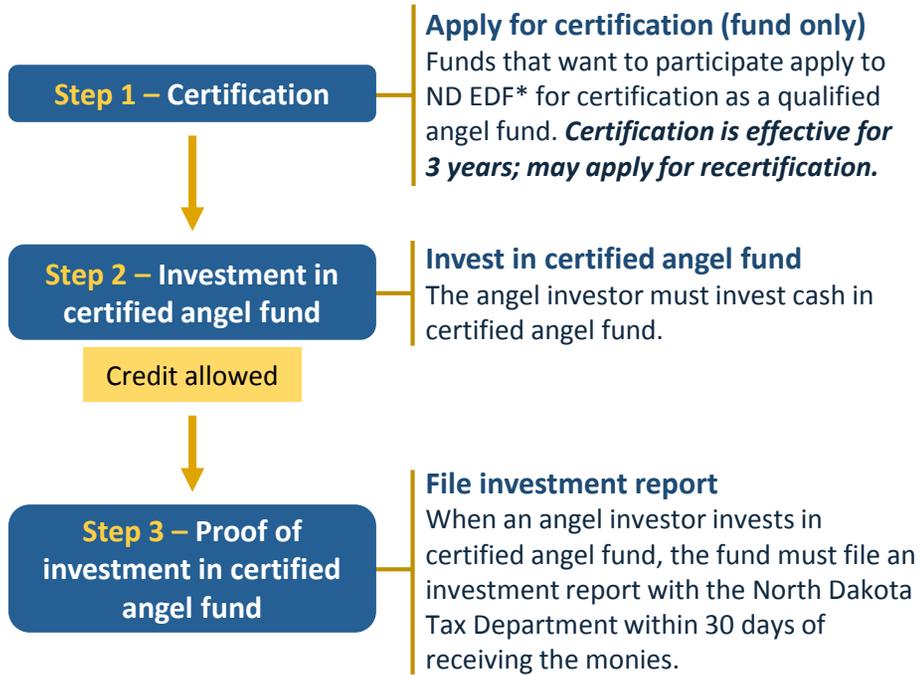


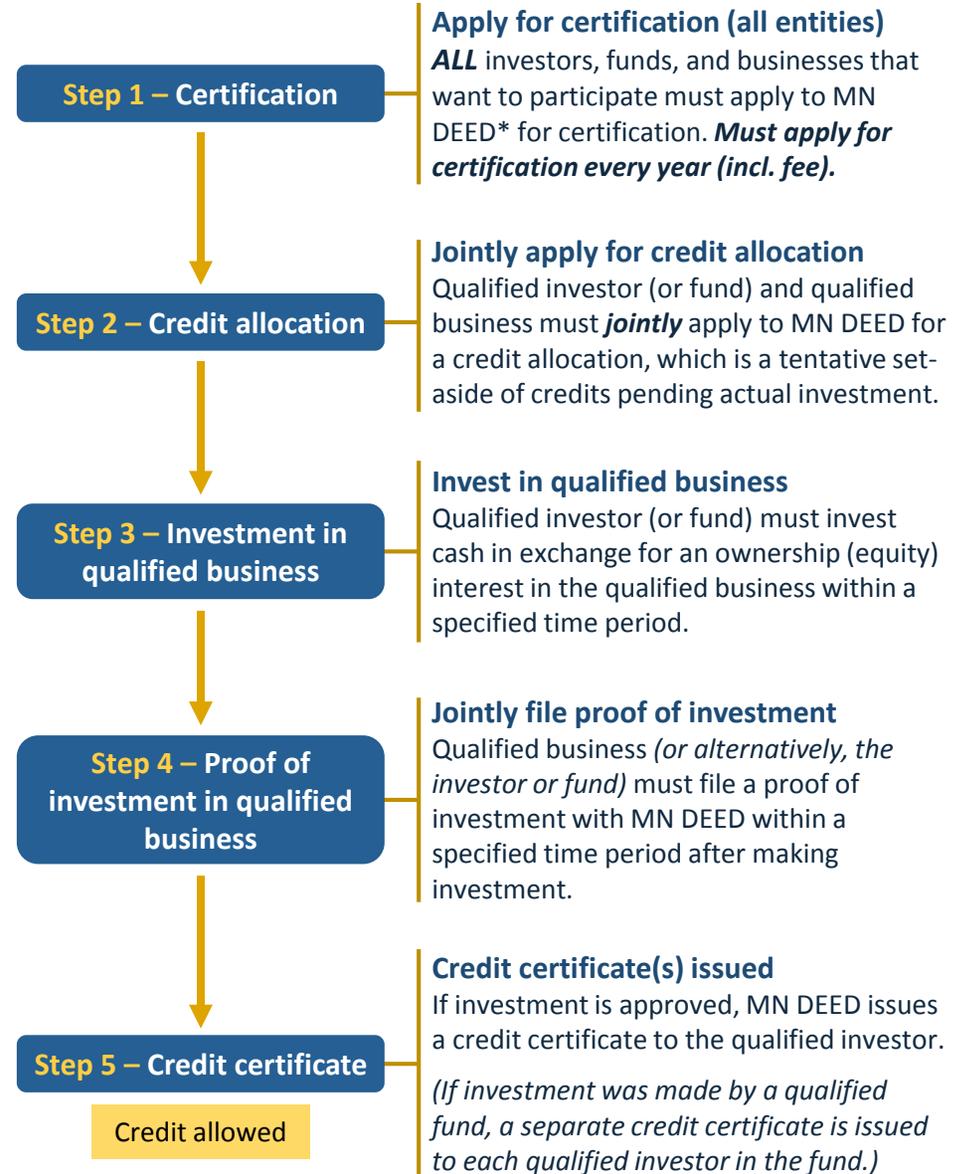
Overview of Structure



Certification / Credit Process



* North Dakota Economic Development & Finance Division, ND Commerce Department



* Minnesota Department of Employment and Economic Development

Qualifications to Participate



Angel Fund

Qualified angel fund

- Organized as passthrough entity in North Dakota
- Headquartered in North Dakota
- Minimum of 6 accredited investors who have committed at least \$500,000 to fund’s use
- Managed by its investor members
- No one investor holds over 25% of fund’s assets or over 49% of business in which fund invests
- **Purpose** is to invest in at least 3 qualified businesses—see “Qualified Business” below
- **Has not** invested in real estate
- Compliant with North Dakota securities law
- Certified by ND EDF (for 3-year period)



Qualified business

- Primary sector—see definition below
 - Private, nonpublicly traded entity
 - Annual revenues do not exceed \$10 million
- “Primary sector” refers to business that uses knowledge or labor to add value to a product or service that creates new wealth (but excludes production of crops and livestock in regular farm operation)
- “New wealth” means revenues from sales to customers outside North Dakota, or from sales of products or services with limited or no availability in North Dakota.



Angel Investor

Qualified investor

- Natural person
- Accredited or non-accredited
- **Not** an officer, principal, or 20% or more voting owner of qualified business (incl. family member)
- Invests at least \$10,000 in qualified business
- Certified by MN DEED (annually w/ \$350 fee)



Angel Fund

Qualified angel fund

- Organized as passthrough entity (in any state)
- Minimum of 3 investors, 3 of whom are qualified investors
- Investment in fund must be for equity interest or interest-bearing note
- Invests at least \$30,000 in qualified business
- Certified by MN DEED (annually w/ \$1,000 fee)



Qualified business

- Headquartered in Minnesota
- Under 25 employees
- Operating for 10 years or less (20 years, if related to FDA-approved medical devices or drugs)
- Minimum of 51% of employees and payroll in Minnesota
- Pays annual wage of at least 175% of poverty level for family of 4 (excludes officer, principal, or 20% or more owner)

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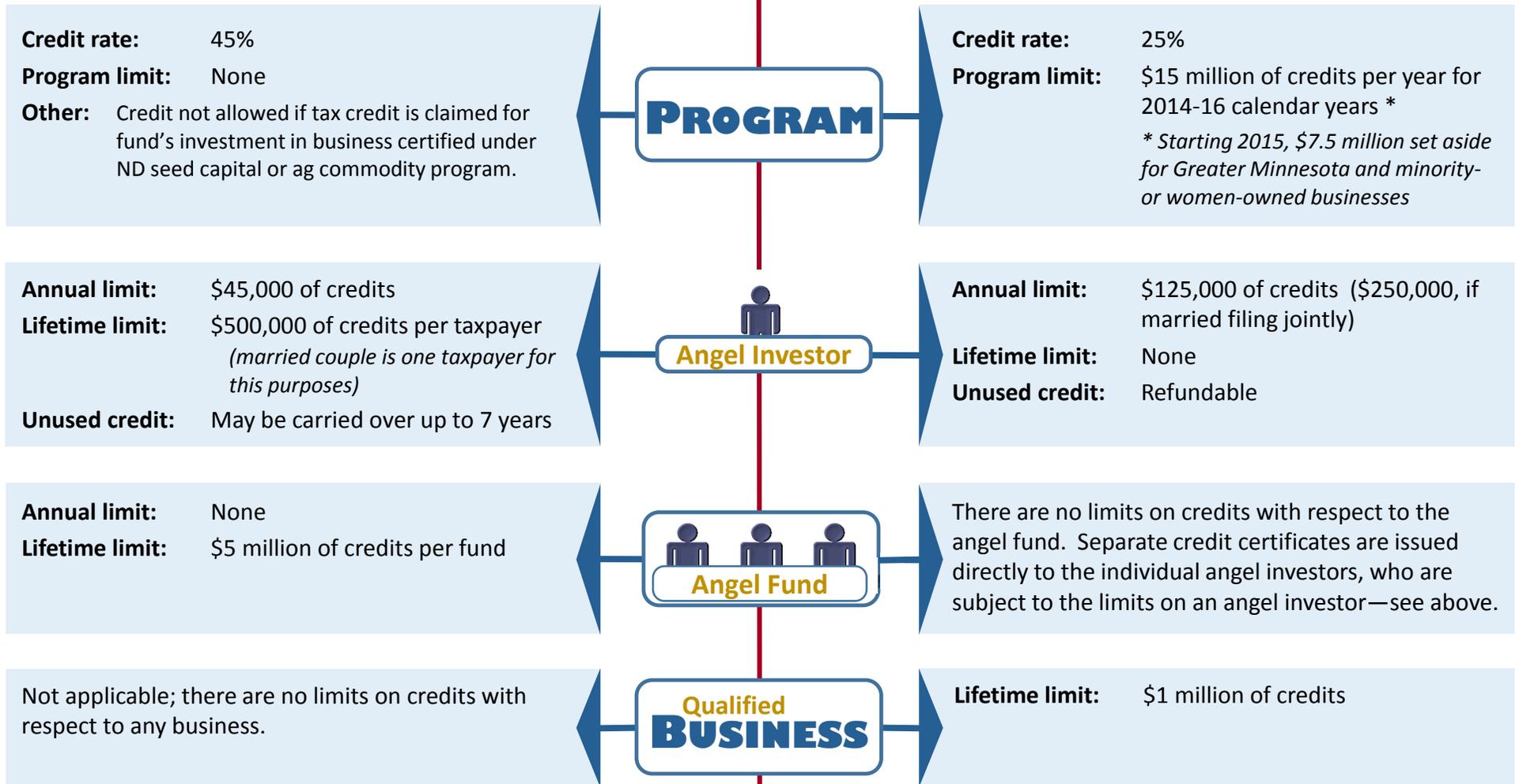
Qualifications to Participate

Qualified
BUSINESS

Continued from previous page...

- Primary activity involves any of following:
 - Uses proprietary technology to add value to a product, process, or service in high-tech field
 - Research or development of proprietary product, process, or service in high-tech field
 - Research, development, or production of new proprietary technology, or research or development of non-technological proprietary product, process, or service, in field of agriculture, tourism, forestry, mining, manufacturing, or transportation
- **Is not** involved in a non-qualifying activity—
 - Real estate development, banking, insurance, IT consulting, constructions, wholesale or retail trade, hospitality and leisure, transportation, or corn ethanol production
 - Professional services
- **Does not** have securities trading on public-exchange, and **does not** issue securities that begin trading on public-exchange within 180 days receiving qualified investment
- **Has not** received 4 million in private equity investment (*incl. from owner/officer*), and **has not** received \$4 million in qualified investments under program
- Certified by MN DEED (*annually w/ \$150 fee*)

Limitations on Credits



Revocation of Credit



Angel Investor

There are no specific provisions in North Dakota’s angel fund statute regarding revocation or paying back the credit.

However...the statute does require an investor to leave monies in the certified *angel fund* for **3 years** following date of investment to remain eligible for credit.



Angel Investor



Angel Fund

Qualified investor or **qualified angel fund** must hold investment in qualified business for **3 years** following investment year.

Otherwise...credit is revoked and **qualified investor(s)** must pay back 100% of credit.

Exceptions—Revocation does not apply if any of following occur before end of 3-year period:

- Investment becomes worthless
- 80% of qualified business’s assets are sold
- Qualified business is sold
- Qualified business’s stock begins trading on public exchange
- Death of qualified investor

Qualified BUSINESS

Qualified business must maintain following for **5 years** following investment year:

- Minimum of 51% of employees and payroll in Minnesota
- Annual wage of at least 175% of poverty level for family of 4 (*excludes officer, principal, or 20% or more owner*)

Otherwise...credit is revoked and **qualified business** must pay back credit as follows:

If not met in—	Pay back this % of credit—
1 st year	100%
2 nd year	80%
3 rd year	60%
4 th year	40%
5 th year	20%

Reporting Requirements

Annual reporting by
Qualified Funds

Every qualified fund must file an **annual report** with the North Dakota Tax Department. For each business in which the fund makes an investment, the report must show—

- Name of business
- Location of principal place of business

Other reporting

Qualified Funds

For each investment that an angel investor makes into a qualified angel fund, the fund must file an **investment reporting form** with the North Dakota Tax Department showing—

- Name and FEIN of qualified angel fund
- Name, address, SSN, and entity type of angel investor
- Date and amount of investment

Disclosure to North Dakota Legislature

The statute does not require, but allows, the North Dakota Tax Department to disclose the following to ND Legislative Management—

- Name of qualified angel fund
- Name of each business in which fund made an investment
- Location of each business's principal place of business
- Date and amount of each investment made in a qualified angel fund (**but not the investor's identity**)

Annual reporting by
Qualified Investors and Qualified Funds

Qualified Investors / Qualified Funds

Every qualified investor and qualified fund must file an **annual report for 3 years** with Minnesota Dept. of Employment and Economic Development (MN DEED) showing—

- Current investments not held for 3 years*
- Investments not held 3 years and reason for divesting*

** Business name, and investment date and amount*

Report filing fee of \$100 (\$500 late filing penalty)

Qualified Businesses

Every qualified business must file an **annual report for 5 years** with MN DEED to verify it is meeting following requirements:

- Headquartered in Minnesota
- Minimum of 51% of employees and payroll in Minnesota (*unless it is pre-payroll*)
- Annual wages of at least 175% of poverty level for family of 4 (*excludes officer, principal, or 20% or more owner*)
- Engaged or committed to engage in the type of innovative activity defined by statute

Report must also show—

- Amount of investment **not qualifying** for credit
- Whether its securities trade on public exchange, or it had a liquidation event
- Indirect hires, e.g., contractors and consultants

Report filing fee of \$100 (\$500 late filing penalty)

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Reporting Requirements

Continued from previous page...

**Annual reporting to
Minnesota Legislature****Minnesota Department of Employment and Economic
Development (MN DEED)**

The Minnesota Department of Employment and Economic Development (MNDEED) must file an annual report with the MN Legislature's tax and economic development committees showing the following:

- For each qualified business—
 - Location of headquarters
 - Line of business
 - Amount of investment qualifying for credit
 - Amount of investment *not qualifying* for credit
- Total number and amount of credits issued for all qualified businesses
- Recipients of credits
- Number and amount of credits revoked
- Number and amount of credits no longer subject to 3-year investment holding period because of a statutory exception to revocation of credits

Miscellaneous Provisions

