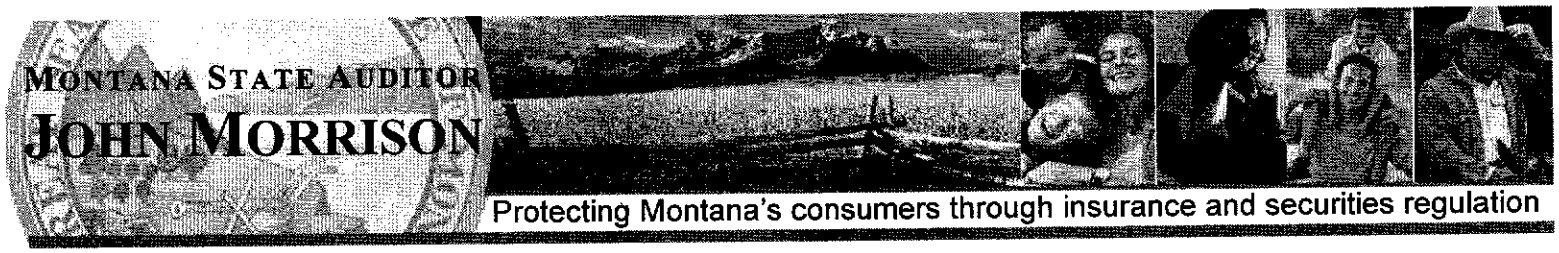


SB 133 -- Montana Equity Capital Investment Act

EXHIBIT 1
DATE 4.12.05
SB 133

This legislation is about attracting and growing Montana business.

It creates a public-private partnership to harness private investment management to create a fund of funds for the benefit of Montana. The bill fosters the development of a venture capital market for investment in Montana small business. The concept was a bipartisan effort; developed in partnership with the Governor's Office of Economic Opportunity and the State Auditor's Office. The interim Economic Affairs Committee adopted the concept. It is already a successful program in **Oklahoma, Arkansas, Iowa and Utah.**

Supporters
Sen. Mangan (D) and Rep. McKenney (R), Economic Affairs Interim Committee

- Montana Ambassadors
- Montana Chamber of Commerce
- Montana Bankers Association
- Montana Economic Developers Association
- MACO Economic Development Committee
- Montana Independent Bankers
- DA Davidson
- MSE Technology
- AA Capital
- Ventures International, Inc.
- Glacier Venture Fund
- Private entrepreneurs & companies, including Ligocyte, Printing for Less, and TechRanch.

SB 133 received unanimous support in Senate Finance and Claims, and passed the full Senate on a bipartisan vote of 32-16.

Advantages

The key is to bring national expertise to build Montana entrepreneurial spirit. This program syndicates deals to provide increased growth for Montana business. Advantages include:

- Low cost to implement (less than $200,000 fiscal note)
- No cost to continue
- Public/private partnership to harness Montana business to national expertise
- Leverages private investment to syndicate
- Brings money to Montana
- Professional talent focused on Montana
- Long-term state revenues

How does it work?

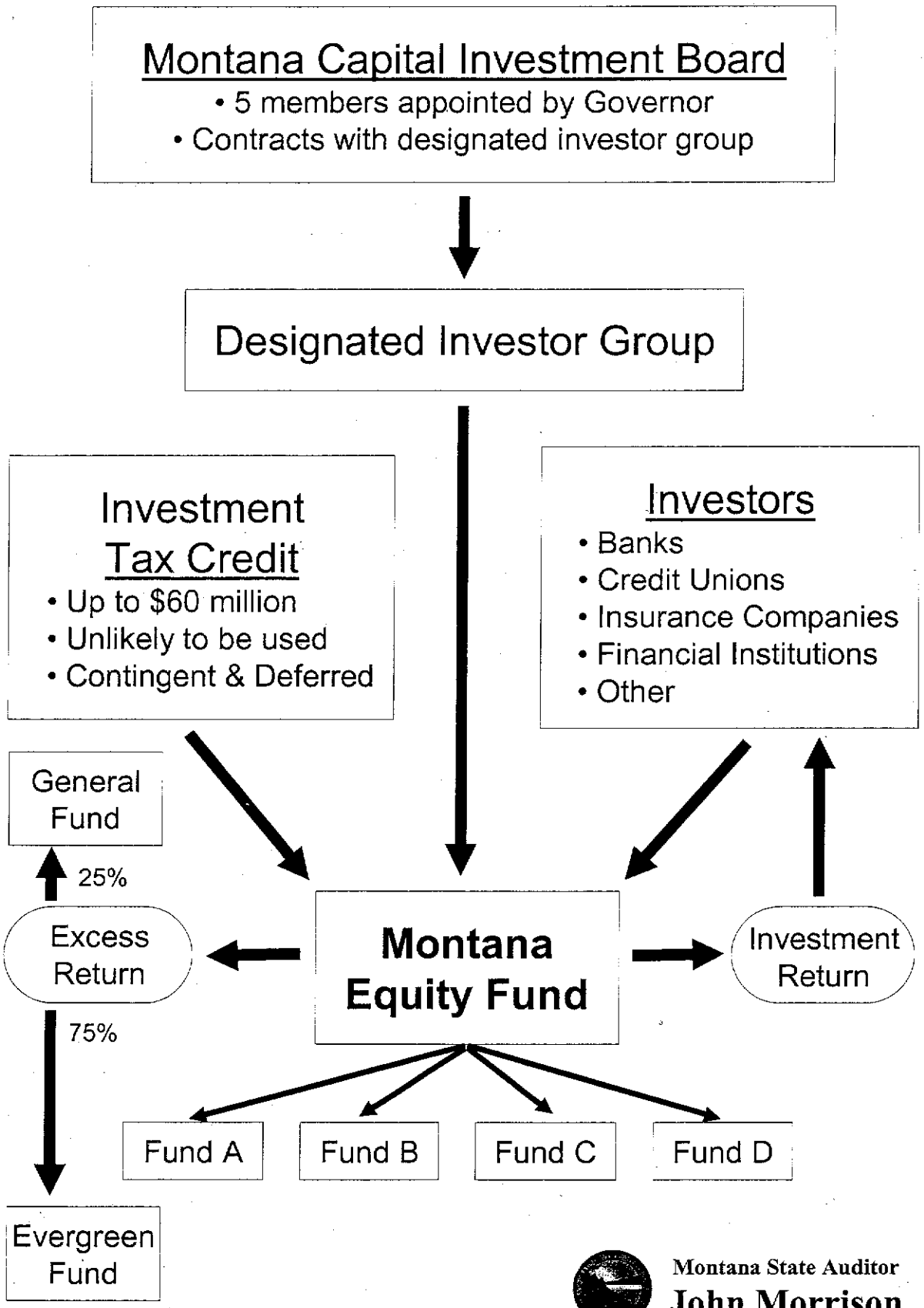
1. Creates a five member Board, appointed by the Governor, chosen based on expertise in specific financial areas. (Section 4)
2. The Board contracts with a nationally qualified, private fund manager to sell a financial instrument to institutional investors. The sale of the financial instrument creates capital to fund the Montana Equity Fund. (Section 5)
3. The financial instrument is attractive to institutional investors. The state provides incentive by backing the financial instruments with a contingent deferred tax credit (meaning no redemption under normal circumstances).
4. The Montana Equity Fund will then invest in seed and venture capital partnerships that meet the strategic objectives of the fund – such as significant focus in Montana. (Section 10)
5. When the Montana Equity Fund has $60 million invested, excess returns will be distributed 75% to the Montana Evergreen Fund and 25% to the general fund. The Evergreen Fund will invest only in Montana. (Section 10). After 50 years, this program is disbanded and the funds will be dispersed to the general fund.

Protections for Montana

First and foremost, the Board oversees the designated investor group and the investments made. The Board may terminate the relationship with the Designated Investor Group for many reasons, including failure to invest in Montana. The Board oversight creates a key layer of protection for the investments. In addition, an **office in Montana:**

- Mandatory yearly audit and mandatory report to the legislature
- Limited amount of tax credits available ($60 million); only $12 million redeemed each year.
- No tax credit redeemed prior to 2010; allowing time for the Board to monitor investments.

Montana Equity Capital Investment Act
SB 133



Montana State Auditor
John Morrison