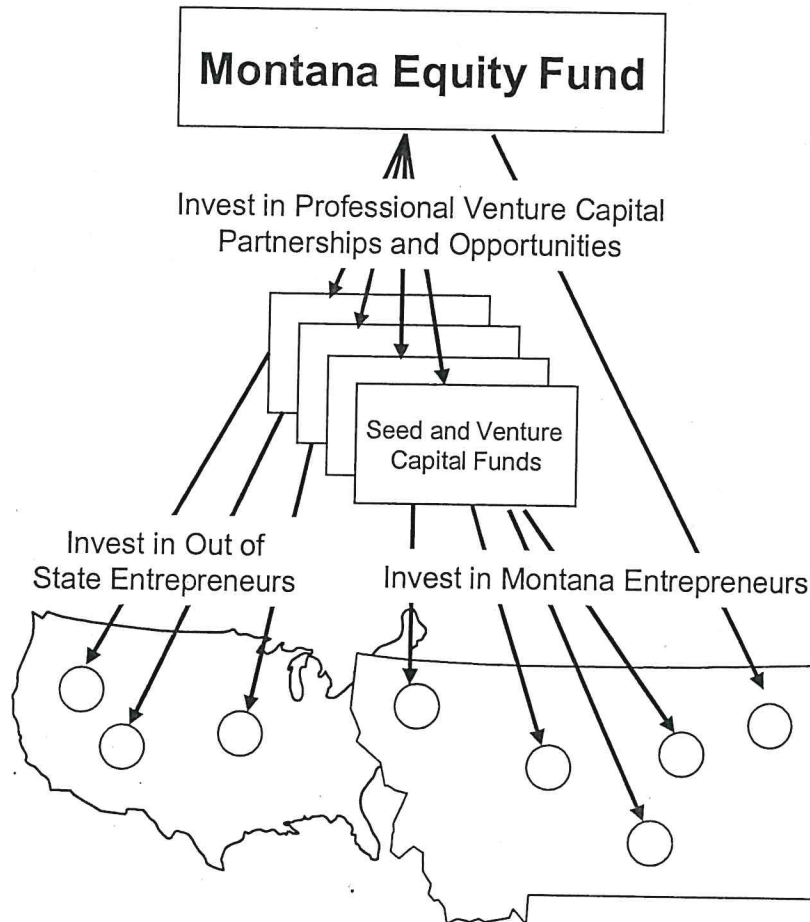


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Montana Equity Fund

*Expanding the Supply of Seed and Venture Capital
For Montana Entrepreneurs*

The mission of the Montana Equity Fund is to mobilize and invest new sources of equity and near-equity capital to help build a vigorous entrepreneurial economy in the State of Montana. Over the next ten years, the program intends to generate at least \$120 million of new capital for Montana businesses.



Program Highlights

Private Capital – The fund will be capitalized with \$60 million in the beginning years by private investors and institutions.

Seed and Venture Capital – The Fund will primarily invest in professional, privately managed seed and venture capital partnerships that meet the high investment standards and strategic objectives of the fund.

- Each partnership will maintain a significant focus in Montana.
- Each will invest in fast growing businesses, the kinds that create new industries in the state.
- Together they will support a wide range of early and growth stage companies throughout the state, particularly in regions of the state where venture capital resources have historically been sparse.

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State Incentive – The state provides an incentive by backing the privately invested capital. Special contingent deferred state tax credits will be in place, if needed, to guarantee a return to the private investors. In exchange, the state will receive 100% of the investment returns after tax credit certificates have been redeemed or cancelled and fees paid. The state's proceeds will be allocated to the Montana Evergreen Fund for a long-term self-sustaining program and the general fund.

Benefits to the State – The program will provide significant economic as well as capital benefits to the State.

1. **Low Cost** – With professional management, it is unlikely that tax credits will ever be used. Over the life of the program the State should enjoy significant economic benefits for a very small cost.
2. **Montana Evergreen Fund** – 75% of the net cash proceeds generated by the program will be continuously reinvested to serve the capital needs of Montana entrepreneurs through the Montana Evergreen Fund.
3. **Private / Public Partnership** – The program relies on strong private sector leadership, with appropriate public sector oversight.
4. **Leveraged Private Investment** – Over time, the program seeks to attract at least \$120 million for Montana businesses. Using Oklahoma as a reference program, \$48 million of committed capital has resulted in \$94 million for businesses in the state over the past 10 years¹.
5. **Professional Talent** – By investing in a number of venture capital partnerships, each with its own team of professionals, the Fund will be able to support a broad range of investment talent to serve the diverse needs of entrepreneurs throughout the state.
6. **State Revenues** – Proceeds remaining after paying program costs and capitalizing the Evergreen Fund are deposited directly to the state's general fund.

Organization and Management - The Fund will be managed as a private program with public oversight.

Oversight Authority – The State of Montana, through the Montana Capital Investment Board, is responsible for approving the allocation plan, investment strategy and selection of the Fund manager as well as the use of the tax credits.

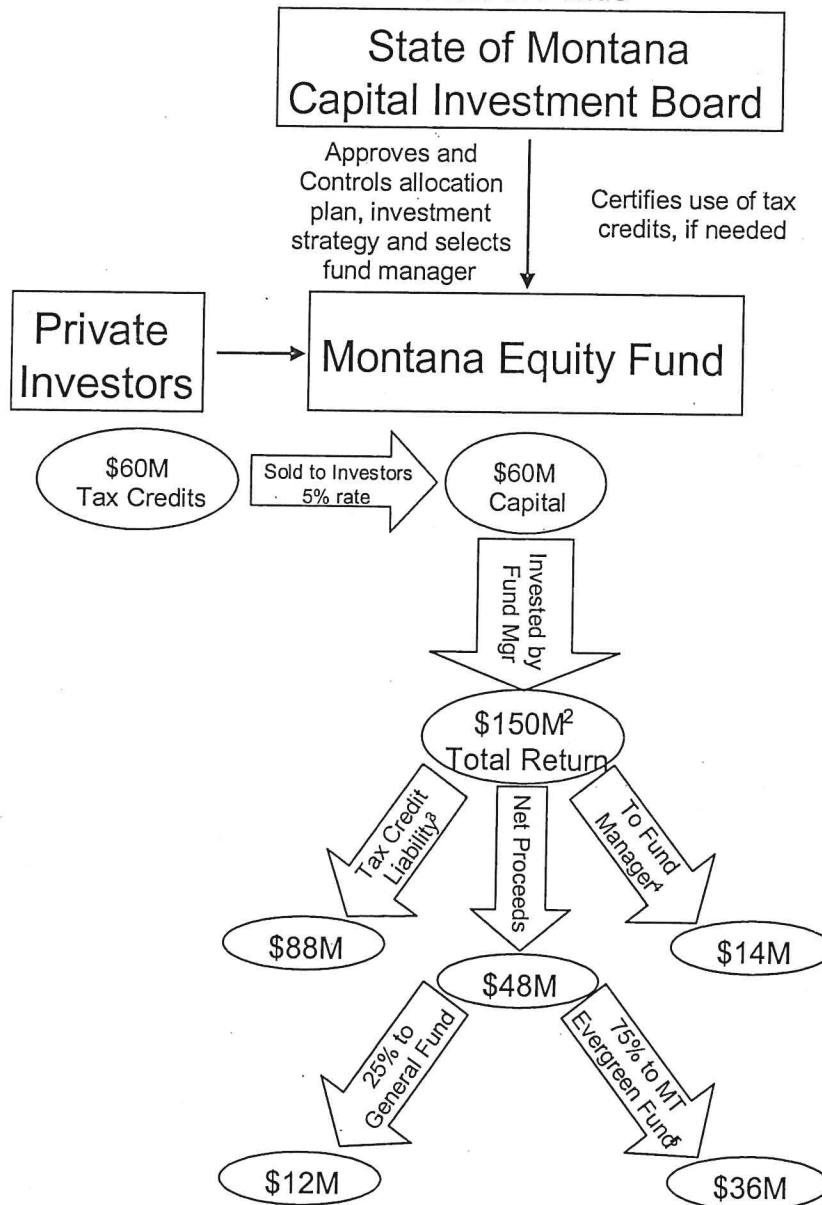
The Fund – The Fund will be a private entity managed for the benefit of the state. The Board will select the Fund manager and investor group through a merit-based competition.

¹ Oklahoma's Program (The Oklahoma Capital Investment Board, "OCIB") is most similar to Montana's proposed "Montana Equity Fund". Over the past 10 years OCIB has committed \$48 million to 12 separate venture and seed capital funds (average of \$4 million per fund) that raised a total of \$716 million (average fund size of \$60 million). Through June 30, 2003 Oklahoma businesses and entrepreneurs have received \$94 million (195% of the state's commitment) in capital as a result of this program. Eventually, OCIB intends to invest \$100 million in the program which is expected to result in over \$400 million of new capital for Oklahoma businesses and entrepreneurs.

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Montana Equity Fund

Flow of Funds



² Upper quartile venture funds have historically returned in excess of 3 times invested capital. OCIB's first four funds have now reached maturity and will achieve a 16% internal rate of return which equates to 2.4 times over a ten year period. For the sake of illustration we have assumed 2.5 times and 18% performance.

³ Assumes an accelerated 8 year payback to the investors at the 10 year Treasury note rate (currently approximately 4.255% plus 50 to 75 basis points = 5%) or a total of \$88 million for the \$60 million initially invested.

⁴ Specific contract terms are subject to a merit based competition from competing fund of funds managers. The Montana Capital Investment Board will select the fund manager and negotiate the contract. For the purpose of illustration, a 1% annual management fee and a 7% carried interest on net proceeds was assumed resulting in a payment totaling \$14 million to the fund manager over the life of the program.

⁵ The Montana Evergreen Fund will become a self-sustaining fund which will invest only in businesses and entrepreneurs that meet the statute's criteria for qualifying as a Montana business.