

Kentucky Enterprise Fund

Guidelines

1. Stimulate private investment in Kentucky-based technology companies;
2. Accelerate knowledge transfer and technological innovation, improve economic competitiveness, and spur economic growth in Kentucky-based companies;
3. Support feasibility, concept development, and commercialization activities that have clear potential to lead to scalable, platform-based, commercially successful products, processes, or services within a reasonable period of time;
4. Stimulate growth-oriented enterprises within the Commonwealth;
5. Encourage partnerships and collaborative projects between private enterprises, Kentucky's colleges and universities, and research organizations;
6. Promote commercialization activities that are market-oriented; and
7. Support small and medium-sized companies.

For the purpose of the Kentucky Enterprise Fund, companies must be categorized in one of the following industry sectors:

- Biosciences (BIO)
- Environmental and Energy Technologies (EET)
- Human Health and Development (HHD)
- Information Technology and Communications (ITC)
- Materials Science and Advanced Manufacturing (MSAM)

Company Eligibility

- High growth, early-stage companies developing and commercializing a technology product, process, or service with potential to raise private capital;
- Small or medium size business (150 or fewer employees);
- Business with its principal place of business in Kentucky or at least fifty percent (50%) of its property and payroll located in Kentucky;
- Grant eligibility: To be eligible for a grant, an eligible company is any corporation, limited liability company, partnership, registered limited partnership, sole proprietorship, business trust, person, group, or other entity engaged in non-retail commerce, agribusiness, trade, or manufacturing;
- Investment eligibility: To be eligible for an investment, an eligible company must be organized as a C Corporation (C-corp) or as a Limited Liability Company (LLC).

Funding and Use of Proceeds

- Funds may be used to support operations, which may include development of a market or commercialization strategy; development of a prototype; proof of concept work or product testing; commercial development work; product launch; business expansion; filing for intellectual property protection; and other operational work as needed. Funds may not be used for construction, retail, or real estate projects.
- Grants and Investments
 - Grants: Up to \$30,000 for companies exploring the feasibility of technology commercialization. Companies must provide a 1:1 dollar match for the grant. Matching may come from cash or in-kind sources. Funds must be spent within one year of contract. One grant per company. A company may receive a maximum of \$30,000 in grant level money through the Kentucky Enterprise Fund and the Rural Innovation Fund combined, without incurring a payback requirement. If the company applies for and receives a grant and/or investment beyond this total – from either the Rural Innovation Fund or the Kentucky Enterprise Fund, KSTC

will negotiate a payback provision *for the full amount of all awards (grant and investments) made.*

- Investments: Up to \$750,000 – If investment is made via a convertible note, matching is not required. If investment is made via a qualified round of financing, the company must match the investment 1:1 in private capital, i.e., the qualified financing must meet or exceed two times the amount of funds requested from KSTC. Funds raised from state-sponsored sources are not eligible for the match. Funds must be spent within one year of contract. Companies need not have received a separate award under KEF to be eligible for an investment. Funds will be invested via a standalone convertible note or as part of a minimum qualified round of financing. For the purposes of the Kentucky Enterprise Fund, a qualified round of financing is a formal financing round that is documented by standard legal documentation, including a subscription/stock purchase agreement, a shareholder/investor rights agreement, and an investor questionnaire to verify that all investors are accredited according to Regulation D under the Securities and Exchange Commission (SEC).
 - Up to \$250,000 investment for companies in the concept development phase of technology commercialization – Funds invested via a standalone convertible note or as part of a minimum \$500,000 qualified round of financing.
 - Up to \$500,000 investment for companies in post-initialization but before full commercialization – Funds invested via a standalone convertible note or as part of a minimum \$1M qualified round of financing.
 - Up to \$750,000 investment for companies with high growth potential and a clear path to commercialization – Funds invested via a standalone convertible note or as part of a minimum \$1.5M qualified round of financing.
- Total Kentucky Enterprise Fund and Rural Innovation Fund grants and investments combined in a single company may not exceed \$780,000.

- KSTC, at its sole discretion, reserves the right to review, alter, and structure its investments, which may differ from company request, based on KSTC's evaluation of the company, its stage of development and funding requirements, its investors, and other criteria.
- In order for funds to be considered as a match for the Kentucky Enterprise Fund investments, the company's matching financing, as part of a qualified financing or other financing, must be closed less than six (6) months before the application or within six (6) months after an investment notice. All matching funds must be generated from private, independent, accredited investors. Grant fund matching must within the contract term. KSTC, at its sole discretion, reserves the right to alter these guidelines on a company by company basis.

Application, Evaluation, and Selection Process

- KSTC will implement a statewide notification process of the Program's process, availability, and schedule via KSTC's website, including a deadline for submission of applications which shall be at least biannually. The deadline for review of applications shall not exceed one hundred twenty (120) days after the application submission deadline. KSTC will notify companies when they are awarded, and companies must respond within the requested time period. The specific time period required for response may vary at KSTC's sole discretion. If awardees fail to respond by the deadline, the funding award is made void at KSTC's sole discretion.
- Applicant companies must provide the following information (if applicable as determined by KSTC):
 - Management – including experience, qualifications and capabilities; organizational chart; Board of Directors composition and members backgrounds; Advisory Board composition and members backgrounds;
 - Technology – core technology description, feasibility, scalability, reliability, robustness, and inter-operability with existing technologies; technology development schedule and innovation strategy; compatibility, integration, and implementation to

current marketplace systems; applications; pricing strategy; competing methodologies;

- Intellectual Property – IP strategy; patents, trademarks, copyrights filing status; strength of the IP; expected legal fees; IP management processes;
- Market – market analysis to include end-consumer compliance, size, growth potential, and effects of macroeconomic changes, where is the company going, what is the total target market size, timing with market need and trends (fit), which competitors could enter and why, breadth of competitive landscape, company's current differentiation from competitors, competitor's business models, revenue models, and performance track record;
- Sales and Marketing – strategy, value chain landscape, potential partners, market research including customer adoption studies, time to breakeven, strategic partners and candidates;
- Manufacturing – manufacturing plan, accessibility of supply chain;
- Regulatory – regulatory landscape and requirements;
- Business Model – financial strategy, revenue model and underlying assumptions, current and pro forma financials, comparable businesses, revenue models, and their valuations;
- Deal – capitalization table, financing strategy, potential exit strategies, use of proceeds, valuation, terms, milestones, risks;
- Company documents, including:
 - Offering Documents: Provide all deal documents (e.g., private placement memorandum, stock purchase agreement, subscription agreement, investor questionnaire) and a deal term sheet;
 - Organizational Documents: Certificates and Articles of Incorporation or Organization, Operating Agreement,



Shareholders Agreement, and/or Investor Rights Agreement and any amendments to such documents.

- Copies of any contractual restrictions, agreements or rights attaching to any securities have preference over common stock, as well as any debt convertible into any equity of the company;
- Principal officers' contact information, resumes, references and reference contact information, salaries and compensation, and time commitment to company;
- Certify that no current or prospective employee, officer, principal, director, or owner has been accused or convicted of any crime or wrongdoing.
- Financial Statements: Supply the latest annual and quarterly accrual-based financials for the company (balance sheet, income statement and statement of cash flows.) as well as a monthly comparison of projected vs. actual revenue and expenses for the preceding 12 months;
- Financial Projections and underlying assumptions;
- For any material amounts, provide accounts receivable and accounts payable against schedule and other obligations due to/from the Company and its Affiliates;
- Brief description of any prepaid or deferred income and expenses;
- Auditors (internal and external) letters and reports to management;
- Tax returns and statement indicating whether the company has had or anticipates having any correspondence with any state or federal tax authority;
- List and explain any loan agreements or any other financing instruments, with related documentation, to which the company was, is, or will be a party;

- Intellectual Property: Please submit copies of patents, patent applications, provisional patents, copyrights, copyright applications, and other intellectual property, if any;
- Counsel IP reports (Freedom to Operate opinion, etc.);
- Copies of all contracts;
- Schedule of all litigation, arbitration, and government proceedings to which the Company or the Company's directors, officers, or employees are or have been a party to within the last three years or which are threatened against any of them;
- Contact information for all outside service providers (lawyers, accountants, bankers, etc.);
- Relevant government regulations and an assessment of their effect; potential new regulations that may effect company;
- Insurance Certificate: KSTC requires investment recipients to maintain and provide evidence to KSTC of insurance coverages required by law or as reasonably requested by KSTC;
- A current Certificate of Existence for the Applicant issued by Kentucky's Secretary of State and documentation that the Applicant is in Good Standing with the Kentucky Secretary of State. For information please go to the Kentucky Secretary of State's website at: <http://sos.ky.gov/business/records/>;
- Kentucky-Based Company Certification: This certification, made by the management team of the company, must be reviewed by a licensed CPA independent of the company. KSTC, at its sole discretion, will determine if you are a "Kentucky-based company" as stipulated by the statute authorizing the Kentucky Enterprise Fund;

- License Agreements: Please submit a copy of all licensing agreements with any third-parties for any intellectual property that the company does not own, if any;
 - Market research, business plan, and investor presentation (if any);
 - Design plans, photos, CAD drawings, or any other visual representation of the product or service, if any; and
 - White Papers or Drawings: Please submit any white-papers or drawings outlining the technology, if any.
 - Letter of recommendation from an ICC Office (if applicable).
- KSTC may require an interview with the applicant Company's Management to assess the management team and its business plan.
 - KSTC will employ its thorough due diligence methodology, including the use of external technical experts, as part of the due diligence process. KSTC will focus on providing support to companies with development and commercialization projects that are likely to:
 - Show significant promise of raising private investment;
 - Produce a measurable result and be technically sound;
 - Lead to innovative technology or new knowledge;
 - Lead to scalable, platform-based, commercially successful products, processes, or services within a reasonable period of time;
 - Show significant potential for stimulating innovation-driven economic growth and a reasonable probability to enhance employment opportunities within the Commonwealth; and
 - Make best efforts to partner with a college or university. (If KSTC determines that, despite all best efforts, it is not practicable for a company to partner with a college or university on a project for which all other requirements are met, then the

requirement to partner with a college or university may be waived.)

- For each application submitted, KSTC will perform an independent review with the use of outside experts. Each evaluation will be based upon, but not limited to, the following criteria:
 - A clear indication that the company will be ready to seek private investment upon completion of the grant and/or investment;
 - Project is a platform technology and is scalable for high growth potential;
 - Verification that the applicant is an eligible company that meets the definition of a Kentucky-based company and medium-size company or small company;
 - A technology description and plan that is sufficient for external expert review;
 - A detailed financial analysis that includes the commitment of resources by the applicant and others;
 - Sufficient detail concerning proposed project, type, and amount of work to be performed, and expected product, process, or service with estimated costs to be reflected in the negotiated contract or agreement; and
 - A statement of the economic development potential of the project.

Investments & Monitoring

Prior to receiving funding under the Kentucky Enterprise Fund, recipients must provide assurance to KSTC that any college or university or project partner and the qualified company have negotiated the ownership and disposition of patents, royalties, all other intellectual property rights, and equity or related position relating to any contract between the qualifying company and the college or university or other partner;

- Grants
 - Prior to receiving grant funding, recipients will be required to enter into a Grant Agreement with KSTC on behalf of the Kentucky Council on Postsecondary Education (CPE), which will contain the requirements specific to the Kentucky Enterprise Fund.

- After the execution and return of the Grant Agreement to KSTC and submission of any required additional information, KSTC will disburse the funding to grant recipients in accordance with the schedule set forth in the grant agreement.
- Investments
 - Prior to receiving an investment, companies must negotiate with KSTC an equity or related position on behalf of the Kentucky Enterprise Fund for the sole purpose of reinvesting and sustaining a revolving fund;
 - Prior to receiving an investment, awardees will be required to enter into a subscription agreement with KSTC. If the recipient is not closing a financing round at the time of KSTC's investment, then awardees will be required to enter into a Convertible Note Agreement with KSTC on behalf of CPE, which will contain the requirements specific to the Kentucky Enterprise Fund.
 - After the execution of either a subscription agreement or of the Convertible Note Agreement with KSTC and submission of any required additional information, KSTC will disburse the funding to investment recipients in accordance with the schedule set forth in the subscription agreement or the Convertible Note Agreement.
- Companies receiving funding under the Kentucky Enterprise Fund shall be required to submit regular project progress reports to KSTC. These progress reports shall discuss project status, number of new jobs created since funding, a report of funds raised since receipt of the investment, and accrual-based financials (i.e., balance sheet, income statement, and statement of cash flows). If at any time a company is not performing according to plan, KSTC will enact the appropriate contractual remedies.