

Kentucky New Energy Ventures

Scope & Goals

1. Grow alternative fuel and renewable energy companies in Kentucky to drive statewide economic growth;
2. Stimulate private investment in Kentucky-based alternative fuel and renewable energy companies;
3. Establish an alternative fuel and renewable energy knowledge base and industry in Kentucky;
4. Develop an alternative fuel and renewable energy resource network to build technical and business capacity of entrepreneurs through informal and formal strategic support; and
5. Generate statewide awareness of the economic development opportunities and successes generated by Kentucky's alternative fuel and renewable energy industry.

For the purpose of the Kentucky New Energy Ventures, alternative fuels and renewable energies are:

- Alternative transportation fuels produced by processes that convert coal, waste coal or biomass resources or extract oil from oil shale to produce fuels for powering vehicles, aircraft, and machinery. Alternative transportation fuels may include but are not limited to petroleum, jet fuel, gasoline, diesel fuel, hydrogen derived from coal, and diesel fuel and ethanol derived from biomass;
- Synthetic natural gas which is pipeline quality or industrial quality natural gas produced from coal through gasification processes;
- Biodiesel produced from biomass resources including any organic matter that is available on a renewable or recurring basis, agricultural crops and trees; wood and wood residues; plants, aquatic plants, and plant oils; grasses; animal fats and animal by-products; animal manure; residue materials; and waste product used for purposes other than transportation fuel ;

- Ethanol or ethyl alcohol produced from corn, soybeans, or wheat for use as a motor fuel that meets the current American Society for Testing and Materials specification D4806 for ethanol;
- Cellulosic ethanol which is ethyl alcohol for use as motor fuel that meets the current American Society for Testing and Materials specification D4806 for ethanol that is produced from cellulosic biomass materials of any lignocellulosic or hemicellulosic matter that is available on a renewable or recurring basis, including:
 - Plant wastes from industrial processes such as sawdust and paper pulp;
 - Energy crops grown specifically for fuel production such as switch grass; or
 - Agricultural plant residues such as corn stover, rice hulls, sugarcane, and cereal straws;
- Any other fuel that is produced from a renewable or sustainable source.

Guidelines

Company Eligibility

- High growth, early-stage company developing and commercializing alternative fuel and renewable energy product(s), process(es), and/or services.
- Business with its principal place of business in Kentucky or at least fifty-one percent (51%) 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, limited partnership, sole proprietorship, business trust, person, group, or other entity engaged in research and development and commercialization related to, or the production of, alternative fuels or renewable energy.

- 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 business plan, market strategy, or commercialization strategy; filing for intellectual property protection; development of a prototype; proof of concept work or product testing; commercial development work; product launch; business expansion; and other operational work as needed. Funds may not be used for construction projects.
- Grants and Investments
 - Grants:
 - Up to \$30,000 grant – Companies must match the Fund's grant on a one-to-one (1:1) dollar ratio in cash or in-kind sources (at KSTC's discretion). A company may receive a total of \$30,000 of grant level money through the Kentucky New Energy Ventures without incurring a payback requirement. If the company applies for and receives an investment beyond this total, KSTC will negotiate a payback provision *for the full amount of all awards (grant and investments) made*.
 - Investments: For all investments, Companies must match the Fund's investment on a one-to-one (1:1) dollar ratio in cash. For the purposes of the 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). A qualified financing round must meet or exceed the match requirement.
 - Up to \$250,000 investment – Funds invested via a standalone convertible note or as part of a minimum \$500,000 qualified round of financing.

- Up to \$500,000 investment – Funds invested via a standalone convertible note or as part of a minimum \$1M qualified round of financing.
- Up to \$750,000 investment – Funds invested via a standalone convertible note or as part of a minimum \$1.5M qualified round of financing.
- Total Kentucky New Energy Ventures grants and investments in a single company may not exceed, either individually or cumulatively, \$750,000.
- 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 matching for the Kentucky New Energy Ventures, the company’s matching financing, whether 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. 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 once every six (6) months. The statewide notification process will include dissemination of links to the guidelines and the application via a press release, electronic notification across the state and to interested parties known to KSTC, dissemination across the ICC/IC network, and other methods that KSTC deems appropriate. The deadline for review of applications shall not exceed five (5) months after the application submission deadline.
- Applicant companies must provide the following information (if applicable):

- Management – including experience, qualifications and capabilities; organizational chart; Board of Directors composition and members backgrounds; Scientific 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, etc) and a deal term sheet;
- Organizational Documents: Certificates and Articles of Incorporation or Organization and all amendments;
- 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 New Energy Ventures;
 - 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, to review and select companies to receive investments. KSTC will focus on providing support to development and commercialization projects that are likely to:
 - Produce a measurable result and be technically sound;
 - Lead to innovative technology or new knowledge;
 - Lead to commercially successful products, processes, or services within a reasonable period of time; or
 - Show significant potential for stimulating innovation-driven economic growth and a reasonable probability to enhance employment opportunities within the Commonwealth.

- For each proposal submitted to KSTC, external technical reviewers will provide a numerical score and commentary based on the technical content of the proposal and in comparison to other proposals they have previously reviewed in the alternative fuel and renewable energy subject area. Each reviewer will evaluate the proposal based on the following evaluation criteria, which may change from time to time according to Fund needs:
 - Rationale – the degree to which the proposal addresses an important issue, problem, or opportunity in development and use of its results;
 - Scientific or Professional Merit – the degree to which the activity advances the state of science or discipline through use and extension of state-of-the-art methods;
 - Innovativeness – the degree to which new approaches to solving problems and exploiting opportunities in resource management or development, or in public outreach, on such issues are employed; alternatively, the degree to which the activity focuses on new types of important or potentially important resources and issues;
 - Qualifications and Past Record of Investigators – the degree to which investigators are qualified by education, training and/or experience to execute the proposed activity; their record of achievement with previous funding;
 - Facilities and Equipment – the degree to which the company has adequate facilities and equipment to conduct the proposed research or R&D;
- KSTC shall use independent technical reviewers who have the knowledge and expertise to state an opinion as to the workability and viability of the technology that is being commercialized by the applicant. KSTC shall create and maintain a database of such experts so that specific expertise can be matched with specific applicant technology. These experts shall come from academia, private industry, consultants, etc.
- The Selection Process will reflect the underlying purpose of the Program as defined by the DCI's RFP and the Kentucky New Energy

Ventures' goals. When reviewing proposals, KSTC will factor in the "dual bottom line" that this Program carries. While direct return on investment is an important outcome of this Program, there is an equally compelling economic development objective, which is to encourage the development of new technologies to advance the public purposes of achieving energy independence, creating new jobs and new investment, and creating new sources of tax revenues for the Commonwealth of Kentucky.

Investments & Monitoring

- Grants
 - Prior to receiving grant funding, Recipients will be required to enter into a Grant Agreement with KSTC on behalf of CED / DCI, which will contain the requirements specific to the Kentucky New Energy Ventures.

After the execution and return of the Grant Agreement to KSTC and submission of any required additional information, KSTC will submit an invoice and a copy of the executed Grant Agreement to DCI, that will then issue payment to KSTC for disbursement to grant Recipients. 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, Recipients 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 Recipients will be required to enter into a Convertible Note Agreement with KSTC on behalf of CED / DCI, which will contain the requirements specific to the Kentucky New Energy Ventures.

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 submit an invoice and a copy of the executed subscription agreement or Convertible Note Agreement to DCI, that will then issue payment to KSTC for disbursement to investment Recipients. 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 New Energy Ventures shall be required to submit regular financial statements and project progress reports to KSTC. These progress reports shall discuss project status, number of new jobs created since funding, and a report of funds raised since receipt of the investment. If at any time a company is not performing according to plan, KSTC will enact the appropriate contractual remedies.

Reporting

- KSTC will file an annual report with DCI in compliance with its reporting schedule. The annual report shall include the progress made in achieving the program's purposes, qualitative and quantitative information concerning the company applications received, projects approved and undertaken, companies served, funding amounts invested in each project, and findings and recommendations to increase the Program's effectiveness in achieving its purposes, and any other items agreed upon by DCI and KSTC.



Approved:

Deborah L. Clayton, Commissioner
Department of Commercialization and Innovation
Commonwealth of Kentucky

Kris W. Kimel, President
KENTUCKY SCIENCE AND TECHNOLOGY,
CORPORATION