

**CY15 Ohio Third Frontier Pre-Seed/Seed Plus Fund Capitalization Program
Q&A**

1. The State's award will match the Fund Management fee that LP's are ok with, correct? So for example if a fund has a 2% management fee, then the State would match that 2% 1:1?

Answer – Yes, OTF funds budgeted for Fund Management expenses must be matched 1:1 (3:1 for Seed Plus) with cost share dollars from the Lead Applicant. Unlike in previous RFPs, we did not place a dollar limit or a percentage limit on how much you could propose in your budget for the Due Diligence, Enhanced Management, and Fund Management line items.

2. If an organization has never been awarded Pre-Seed funds, can we apply for Pre-Seed AND Seed Plus funds now?

Answer – No. Eligible Lead Applicants for the Seed Plus category must be a Fund that has an active Ohio Third Frontier-supported Pre-Seed Fund.

3. Is there a limit to the percent of awarded funds that can be used for Due Diligence, Enhanced Management Services, and Fund Management expenses?

Answer – No. Unlike in previous RFPs, we did not place a dollar limit or a percentage limit on how much you could propose in your budget for the Due Diligence, Enhanced Management, and Fund Management line items.

4. If a lead applicant requests a level of State funds, and is approved for that level, then comes short on the cost share match, will the state still close at the lower amount? For example, say \$4MM of state funds are requested, then only \$3MM of cost share match is achieved. Will the State still participate at \$3M level, so long as the budget is adjusted to appropriately reflect the smaller capital level?

Answer – Possibly, but not necessarily. If what was originally proposed as an \$8 million fund but is reduced to a \$6 million fund due to lack of cost share, the evaluators will have to re-consider various factors, including degree of impact. As is stated in sec. 3.3.11 of the RFP regarding cost share: *"A Lead Applicant may, in its Proposal, bid both Current and Future cost share commitments... For any Future Commitment listed in the Budget at the time of Proposal submission but from whom the Lead Applicant was not able to secure a commitment letter, Lead Applicants will have until November 30, 2015 to secure and submit commitment letters from each of those organizations... Any award recommendation will be based in part on cost share commitment letters received by Development by November 30, 2015."* In other words, you need to have any outstanding cost share (i.e., Future Commitments) confirmed and committed, in writing, by November 30, 2015. If an award recommendation is made, it would be based on the amount of cost share committed by that time. Obviously, it would also be based on how the evaluators scored the proposal against the other criteria.

5. We understand that the RFP requires State funds, and equal cost share, to be expended in the 3 year project period. However, funds typically take a 10 year life to harvest portfolios. Can the cost share be placed in escrow, and reserved for due diligence services and enhanced management services in fund years beyond year 3?

Answer – Escrow accounts will not be used for awards from this year's Program. Due Diligence expenses, by definition, occur prior to making an investment. Since all Investment dollars must be disbursed within the project period, therefore all Due Diligence expenses must also be disbursed within the project period. Enhanced Management expenses, by definition, occur after an investment is made. And Fund Management expenses may occur throughout the life of the Fund. State funds for these expenses must be disbursed on a reimbursement basis. The agreement could be extended if it becomes necessary to cover those expenses.

6. There may be needs for follow on investments in portfolio companies after year 3, particularly for longer horizon companies (med device, energy, advanced materials, etc.). Is the State flexible that as portfolios evolve, that

part of the State funds (and cost share) be placed into escrow for forecasted follow on investment needs in portfolio companies? This can be particularly important as often B, C and D round VC/equity investors require pro-rata "pay to play" provisions to not be diluted to common stock. This dilution can have a very significant impact on dilution, and therefore returns.

Answer – Again, escrow accounts will not be used for awards from this year’s Program. Keep in mind, these are pre-seed investments, so any follow-on investments must also be at the pre-seed stage. The investment period could be extended, if necessary. Also, shareholder returns (i.e., those that don’t get re-paid to the State), may be reinvested in portfolio companies.

7. In the Loan agreement, it mentions a 2x loan funds under "metric commitments". This doesn't appear to be defined elsewhere in the agreement. What specifically is that referring to? The typical level A, B state metrics or other? I don't see it as a potential default provision, so what is the remedy if not achieved?

Answer – The “At least 2x Loan Amount” under the “Metric Commitments” section on the cover page is a reference to the total funding (e.g. state funds plus cost share). Once an award is made and a loan agreement is drafted, an actual dollar amount reflective of the award will be placed in that space.

8. I am wondering if the cost share can include previous investment in the company or TVSF funding already received by the company.

Answer – No. Prior Ohio Third Frontier funding may not be used as cost share. All cost share must be in the form of cash, must be expended during the project period, and must be charged to resources of the Lead Applicant.

9. Additionally, I am wondering if there is a large emphasis on the funding areas found within the eligibility section? I noticed that there are primary and secondary funding types and am wondering if these divisions have a large impact on the funding available to startup companies?

Answer – No. The divisions aren’t meant to represent funding areas, but rather the technology areas that receive the vast majority of investments from the various Funds. Med Tech and Software/IT are the primary areas. The remaining Third Frontier focus areas receive investments from Funds less frequently.

10. With regard to Section 3.3.8 of the 2015 RFP and, specifically, with regard to Lead Applicants that are applying for the first time, is the Lead Applicant required to discuss material successes and failures for prior investment funds IF those funds were not supported by the Third Frontier program? Likewise, should a first time Lead Applicant complete the Pre-Seed Fund Performance Form using data from prior funds, even if those funds were NOT supported by the Third Frontier?

Answer – Section 3.3.8, *Success and Track Record*, is required to be completed by all Lead Applicants who have prior Ohio Third Frontier awards, as well as by Lead Applicants who do not have prior Ohio Third Frontier awards but who may have (or had) other investment funds. If you have any history managing an investment fund, Ohio Third Frontier or not, then you should complete this section. The same goes for the Pre-Seed Fund Performance Form. Even if you don’t have a prior Ohio Third Frontier fund, the greatest extent to which you can provide information on your previous experience, would be beneficial to the evaluators. Also, remember that there is a mechanism within the RFP for you to identify any information in your proposal you wish to have treated as trade secret. Please refer to section 3.2, *Trade Secret Information*, for the details.

11. Could some or all of any awarded funds be used to invest in early-stage companies, in which the investing fund or its corporate affiliates own a majority or all of the equity?

Answer – The intent of the Program really isn't to support Funds that are essentially created to provide funding to companies and technologies that have the same line of origin (e.g., ACME Fund investing in ACME Technologies, Inc.). Having said that, there is no prohibition against that model. In section 2.3.2 of the RFP is language regarding an Ethics Policy that the Lead Applicant must prepare and submit with the proposal relative to its investment activities and conflicts of interest. The Ethics Policy, the sources of deal flow, the Lead Applicant's focus, etc., will all be considered by the evaluators.

12. If we invested in a deal total \$200k (including \$100k State loan and \$100k from the Fund itself), but at the event of liquidity, the return on that deal is less than the total investment amount, for example, only 80% of the investment amount (i.e. \$160k) is returned, in this case would the State expect the Fund to pay back half of the return at that point (i.e. \$80k) and pay the remaining principal (i.e. \$20k) plus possible interest by the maturity date? Or, would the State still expect the Fund to pay back the entire \$100k principal at the event of liquidity?

Answer – As long as the overall “Investments, at fair value” (see Appendix C, section 2.4 – defined as “the aggregate value of the Borrower’s assets as determined by a third party.”) is sufficient, the State would receive 50% of the proceeds (regardless of the Fund’s basis in the entity generating the liquidity event) at the time of the liquidity event. In your example, the use of \$100k of loan proceeds from the State is not treated like an investment in a particular entity, just a loan to the Fund as a whole.

13. Are all letters of commitment due with the proposal? Could you please clarify? Thanks.

Answer – All cost share must be documented on the budget forms and in a commitment letter from each organization contributing cost share and be signed by a representative authorized to commit the organization to the proposed Project and the cost share described. Each letter must state the specific amount of cost share that is being committed. The cost share must represent a specific new commitment of cash to the Project described in the Proposal. For any Future Commitment, the commitment letter must also state the anticipated timing the cost share will be available to the Lead Applicant.

For any Future Commitment listed in the Budget at the time of Proposal submission but from whom the Lead Applicant was not able to secure a commitment letter, Lead Applicants will have until November 30, 2015 to secure and submit commitment letters from each of those organizations. Prior to signing the Loan Agreement and within three months of the Ohio Third Frontier Commission award date, all cost share must be in the form of a Current Commitment unless otherwise indicated in the applicable Loan Agreement. Any award recommendation will be based in part on cost share commitment letters received by Development by November 30, 2015.

14. Are we able to change the length of our expected proposal?

Answer – You may not change the term of the project period. Per the RFP, the project period for Pre-Seed Funds will be a maximum of three years. That’s three years to invest the funds and to request reimbursement for any due diligence, enhanced management services, or fund management that you might include in your budget. There may not be many returns in that period, but the award funds have to be drawn down by the end of year 3.

15. During the bidders conference, it was clear that collaborators are defined as groups that will either receive monies provided by the program, or will contribute money to the program. (at least that was my understanding....reading the LOIs it seems many groups listed any and all potential deal flow partners as collaborators). So my first question is, is my understanding correct, which would make deal flow partners NOT collaborators (they share potential deals, but no monies are being exchanged with said partners)?

Answer – Per the RFP, “a Collaborator is an organization, institution, company or other legal entity that is not an affiliate of the Lead Applicant which is anticipated to receive Ohio Third Frontier funds or an individual not employed by or related to the Lead Applicant which is anticipated to receive Ohio Third Frontier funds and/or is contributing cost share.” The RFP further states, “Lead Applicants may obtain the assistance of Collaborators to provide services or to provide cost share, as needed.” As well as stating, “The Lead Applicant should only include a Collaborator Commitment Form from Collaborators who will provide a substantial, well-defined commitment of resources critical to the success of the Project or will be providing significant services with a sub-award of Ohio Third Frontier funds. If a Collaborator will provide cost share, the Lead Applicant should submit both a Collaborator Commitment Form and a cost share Commitment Letter.” Unless a deal flow partner is also providing cost share to the project, or is going to be receiving a sub-award of funds to provide services, it should not be considered a Collaborator.

16. The RFP says no letters of support will be accepted. So where would deal flow partners come in? Should important deal flow partners not be included in potential letters of any kind?

Answer – The Lead Applicant’s relationship with deal flow partners should be described in detail in the narrative portion of the proposal. “The Opportunity” section would be the most appropriate. Collaborator Commitment Forms have been accepted in the past from deal flow partners and Due Diligence and/or Enhanced Management service providers.

17. We have "partners" that will be providing free services on things such as rent, IT, phone, due diligence services and enhanced management services. They are key "partners" to the fund but are not looking for cash compensation (quite possibly will get equity/carried interest participation, but not cash, and possibly no compensation). These partners are very key to the compelling aspect of our investment fund, but technically are not collaborators. Can a "key partner" letter be included, explaining the resources such organizations agree to provide? In essence, it is in-kind cost share, though (unless I misunderstood the RFP) in-kind cost share is not allowed. However, the commitment of such services is very helpful to the overall efforts of the fund and its eventual success.

Answer – Since the budget forms for this program only include line items for Investment; Due Diligence; Enhanced Management; and Fund Management, other expenses should not be reflected in the budget. With regard to Due Diligence and Enhanced Management Services though, the Lead Applicant will need to describe in detail in the “Operations” section of the proposal, their approach to performing Due Diligence and to providing Enhanced Management Services. If those services are going to be provided by another organization, that needs to be described. Collaborator Commitment Forms have been accepted in the past from deal flow partners and Due Diligence and/or Enhanced Management service providers.

18. On page 2 of the budget form, there is line that says Cash Received. To clarify, is this referring to when cash is received from an exit?

Answer: Yes. An exit or any liquidity event.

19. On page 2 of the budget form, there is a line for follow on funding. Is this follow on funding from the Pre Seed Fund or from external sources?

Answer: Follow-on Funding refers to external sources.

20. Is the Pre Seed Fund performance chart asking about existing investments for future investments?

Answer: Please see section 3.3.8, Success and Track Record, of the RFP. The Pre-Seed Fund Performance Form is designed to provide detailed information about the performance of prior Ohio Third Frontier Pre-Seed Funds, or other prior investment funds.

21. Can the fiscal agent of our fund be a third party individual?

Answer: Not sure what exactly you might have in mind, but will tell you that the person that typically fills this role is the person who will be submitting the invoices to and interacting with our Fiscal and Administration team. Perhaps with a little more information we might be able to provide a more specific answer.

22. In section 2.3.3, it discusses the possibility of submitting a collaborator commitment form, a cost share commitment letter, or both. However, reading section 3.3.12, it discusses including everything in one letter (unless I am misunderstanding that section). So the basic question is, for groups that provide both cost share and significant resource commitments, should it be one letter or 2?

Answer – All Collaborators must submit either or both of a Collaborator Commitment Form and cost share Commitment Letter, as described in section 3.3.12 of this RFP. The Lead Applicant should only include a Collaborator Commitment Form from Collaborators who will provide a substantial, well-defined commitment of resources critical to the success of the Project or will be providing significant services with a sub-award of Ohio Third Frontier funds.

If a Collaborator will provide cost share, the Lead Applicant should submit both a Collaborator Commitment Form and a cost share Commitment Letter.

So for a Collaborator that provides both cost share and significant resource commitments, you should submit both a Collaborator Commitment Form and a cost share Commitment Letter.

23. On the RFP, it notes that if a collaborator is also providing cost share, both a collaborator commitment form and cost share commitment letter are required. What about the case where there is only cost share (ie, just an investor commitment....investing in the fund but not providing any collaboration services, just the money)?

Answer – all Collaborators must submit either or both of a Collaborator Commitment Form and cost share Commitment Letter, as described in section 3.3.12 of this RFP.

If the Collaborator is only going to be receiving Ohio Third Frontier funds for the provision of services, then they just need to submit a Collaborator Commitment Form.

If that same Collaborator is also going to be providing cash to be used as Cost Share for the project, then they need to submit both a Collaborator Commitment Form and a cost share Commitment Letter.

24. In the loan agreement, I do not believe that an exact interest rate is identified. Has that been determined?

Answer – The interest rate will be determined at closing.

25. In the budget sheets, it defines qualified deal flow as Ohio, technology based companies. Can't we count companies that may be located outside of Ohio currently but we are reviewing the investment potential and are trying to recruit them to establish a principal place of business in Ohio as qualified deal flow?

Answer – Per the RFP, in section 2.3.1, the Pre-Seed/Seed Plus Funds need to be structured to, among other things, *“Invest in existing Ohio companies or in companies that will relocate to Ohio as a condition of the investment”*.

26. Is their minimum/maximum investment size for a Seed Plus investment?

Answer – There is no minimum/maximum investment size for a Seed Plus investment listed in the RFP. The expectation though would be that a typical total Seed Plus investment would be in the \$750,000 range. Larger investments may be considered on case-by-case situation.

27. Can a Seed Plus investment be the first investment our fund makes in a round, or does a Seed Plus investment need to follow a Pre-Seed investment? (The thinking behind this would be if we wanted to capitalize a company with an investment that was higher than what was in the typical range of a pre-seed investment because of the milestones needed to hit for the next investment round).

Answer – The intent was that Seed Plus would follow Pre-Seed.

Section 2.1 of the RFP stated: *“As Ohio start-up companies successfully progress past the pre-seed stage and seek series A investment to grow to the next level, many have found that venture funds have moved further downstream and require more validation before investing. As a result, many Ohio start-up companies assemble larger and more pre-seed and seed rounds before advancing to the next significant level of professional investment capital – a true Series A round. In an effort to increase these growing companies success in accessing Series A, a new Seed Plus category will allow these funds to directly participate in Seed Plus and early stage Series A rounds as a material co-investor, thus enabling a company to achieve more milestones and market validation as well as ensuring a more attractive valuation. Seed Plus is not a substitute for Series A investment, but is intended to help companies that are transitioning from pre-seed, seed and angel funding to institutional financing.”*

Section 2.2 of the RFP also stated a specific objective was to: *“Provide investment capital to existing and active Pre-Seed Funds that will provide capital to Seed Plus stage technology companies that have received professional seed stage financing and are progressing towards an institutional venture round.”*

28. May an applicant increase the amount of its request from the amount submitted with the Letter of Intent?

Answer – Yes.

29. What constitutes the difference between an individual investment that is appropriate for pre seed vs seed plus (round size, valuation, stage of clinical trials, pre institutional VC, etc)?

Answer – There is no minimum/maximum investment size for a Pre-Seed or a Seed Plus investment listed in the RFP. Historically, typical Pre-Seed Fund investments have been in the range of \$20,000 to \$600,000 total, with an average total investment being around \$300,000. For Seed Plus Funds, the expectation would be that a typical investment total would be in the \$750,000 range.

Per section 2.1 of the RFP, *“Seed Plus is not a substitute for Series A investment, but is intended to help companies that are transitioning from pre-seed, seed and angel funding to institutional financing.”*

30. In the RFP response, must combined funds indicate the mix of Pre-Seed vs Seed-Plus that will be used in the fund? For example, if the RFP response is for a \$6M combined fund, would the applicant be tied to a specific mix that could range from only \$1M preseed to \$5M preseed (same for Seed-Plus)? If a mix must be indicated in the RFP response, can that be adjusted during the life of the fund in response to developing circumstances?

Answer – Yes, a proposal for a combined fund must indicate the mix of Pre-Seed and Seed Plus. Keep in mind the project period for Pre-Seed is three years or less and the project period for Seed Plus is five years or less. If submitting a combined fund proposal, separate budget forms must be completed for each portion of the fund. Reasonable budget amendments may be requested during the project period.

31. For all Collaborators (whether it's a service provider or cost share provider) – include them on the Collaborator Information Form, which needs to be included in the beginning part of the proposal (after the Lead Application Contact Information Page and before the section of Abstract).

Answer – Yes, and by “service provider”, that’s understood to be a Collaborator who will provide a substantial, well-defined commitment of resources critical to the success of the Project or will be providing significant services with a sub-award of Ohio Third Frontier funds. A Collaborator is either contributing cash cost share, will be receiving Ohio Third Frontier funds through a sub-award to provide services, or both.

32. For all Collaborators (whether it's a service provider or cost share provider) – fill out a Collaborator Commitment Form for each and attach them in the Appendix.

Answer – Collaborator Information Forms and Letters of Commitment should be included in the proposal, following the budget pages.

33. Collaborator Commitment Forms are required for all Collaborators, while the Letters of Commitment are only required for those Collaborators who are cost share providers, is that correct?

Answer – Yes.

34. Would a pledge fund type of structure where investors (cost share providers) provide capital on a deal-by-deal basis per their individual decisions (vs. a committed pool of funds) be appropriate?

Answer – The question would be whether the Lead Applicant would have an official close with each of the individual investors to effectively put a legal fence around the commitment. If not, that could be a problem. Another matter to consider is found in Section 3.3.11 of the RFP, page 17, “Cost Share Requirements – Magnitude”, which requires that the cost share and the Ohio Third Frontier funds must flow through the books of the Borrower.

35. Any restrictions as to how we distribute the profits/returns to the investors?

Answer – Per section 2.4 of Appendix C of the RFP, *“Upon the occurrence of a Liquidity Event, payments shall be made by Borrower to the Director in accordance with the terms of the Borrower’s promissory note. The Director hereby consents to distributions by Borrower to its shareholders or investors so long as (a) there is a payment to the Director proportionate to the Cost Share on the Loan; and (b) after deducting the aforementioned disbursements, the Borrower’s most recent “Investments, at fair value” exceeds the outstanding Loan balance.”*