

State-Sponsored Technology Company Investment Strategies

Joel R. Nied, Esq.
Troutman Sanders LLP



- Startup Technology Companies
- \$250,000,000 Private Equity Investments
- Executive Committee, Hampton Roads Technology Council
- Founder, Entrepreneurs Forum of Hampton Roads
- Angel Investor Practice Group
- Pennsylvania, Georgia, Virginia



Purpose of Initiatives

- Creating and retaining high quality jobs (defined as higher pay), generally in technology-based businesses
 - Creating and retaining (and in some cases, recruiting) high quality companies, defined as high growth, high paying), generally in technology-based industries
 - Improving the stability and/or competitiveness of local and regional economy through innovation
- 

Purpose of Initiatives

- Net Gain in Tax Revenues
 - More Companies
 - More Jobs
 - More Sales
- Other Purposes
 - Viability of In-State Investments = More Venture Capital Investment
 - Encouraging Entrepreneurial Activity in State
 - Fosters External Investment



Types of Initiatives

- State Funded and Managed Venture Capital Funds
 - State Investment in Private Venture Capital Funds
 - State Guarantees
 - Tax Credits for Private Investment
- 

State Funded and Managed Venture Capital Funds

- About 15 States
- Sources of Funds
 - North Carolina Golden Leaf Bioscience Initiative (2002)
 - \$150MM of tobacco settlement money
 - Alaska Science and Technology Foundation
 - \$100-million endowment from state oil royalties
 - Michigan Strategic Fund
 - state lottery earnings
 - Oregon Growth Account
 - 1.5 percent of the state's lottery revenues.



State Investment in Private Venture Capital Funds

- New Pennsylvania Venture Capital Investment Program (2004)
 - State provides up to \$60MM loans to venture capital partnerships for investment in Pennsylvania-related companies.



State Investment in Private Venture Capital Funds

- Geographically restricted funds popular in mid-late 80's
 - Success - Massachusetts Capital Resources Corporation
 - Problems
 - Not all private managers are good investors.
 - Strong managers burdened with geographic restrictions makes quality investing difficult.
- 

State Investment in Private Venture Capital Funds

- State pension funds invest in venture capital funds that are encouraged to invest in that state's companies (CALPERS)



State Guarantees

- Direct Guarantees
- Contingent Tax Credit Programs



State Guarantees

- Direct Guarantees
 - New Pennsylvania Venture Guarantee Program (2004)
 - State will guarantee up to \$250 million of equity investments made in Pennsylvania technology companies by qualified venture firms.



State Guarantees

- Contingent Tax Credit Programs
 - Seven States
 - Six of Seven established in last five years
 - Arkansas, Iowa, Michigan, Ohio, Oklahoma, South Carolina and Utah
 - If “fund of funds” does not provide promised rate of return, tax credits are activated
- 

State Guarantees

- Contingent Tax Credit Programs
 - Oklahoma Capital Investment Board
 - \$100MM in tax credits available
 - As of 2002 - contributed \$27.3MM to funds that have invested or co-invested \$89.9MM in Oklahoma firms
 - No tax credits have been redeemed
 - Model for other states
- 

Tax Credits

- CAPCO's
- Direct Tax Credit Programs



CAPCO's

- Certified capital companies (CAPCO's)
- Originated in Louisiana
- Insurance companies receive premium tax credits equal to 100 percent to 120 percent of the amount they loan to or invest in a CAPCO.



Direct Tax Credit Programs

Who is Receptive?

- Venture Capital / Private Equity Funds
 - No amount of reasonable tax benefit will alter their investment habits/criteria
 - 20-60% Tax Credit \neq 20-40% Annual Return
- “Angel Investors”
 - “Just don’t lose my money”



Direct Tax Credit Programs

- Tax credit for investor for an equity investment directly into a qualified business
 - Virginia Qualified Equity and Subordinated Debt Investments Tax Credits
 - 13 States
 - New York, Maine and Colorado - focus on distressed geographic areas
 - Generally 20-50% Tax Credit
- 

Direct Tax Credit Programs

- Hawaii
 - Act 221
 - 100% Tax Credit over Five Years for Tech Company Investments
 - Up to \$2MM Per Investor
 - Indefinite Carry Forward
 - Cost to state:
 - \$48.4MM in 2003
 - \$64.7MM in 2004



Direct Tax Credit Programs

- Hawaii
 - Results:
 - Creation of 600 Technology Jobs
 - \$46,000 Average Salary



Measuring Results

- Short Term
 - Changes in deal flow and venture activity
 - More angel conferences, angel groups, venture capital networks
 - Long Term
 - Increased levels of venture investment
 - Job creation
 - Increased tax revenue collections
- 
- A glowing globe of the Earth is positioned on the right side of the slide. The globe is illuminated from the right, creating a bright orange and yellow glow that extends across the bottom of the slide. The background is a dark blue gradient, suggesting a night sky or a deep space environment.

