



**Accelerating the next generation of
technology and technology companies
in Virginia**

Center for Innovative Technology



Conducts world-class research and development programs that create new industry clusters.



Assists early-stage Virginia based technology companies in their efforts to secure private and federal funding sources



Accelerate the socio-economic growth of Virginia's rural and underserved areas through the application and use of broadband telecommunications



Dedicated to helping large-scale federal and corporate consumers of technology identify and assimilate innovation created in private sector start-up companies. GSA MOBIS Schedule

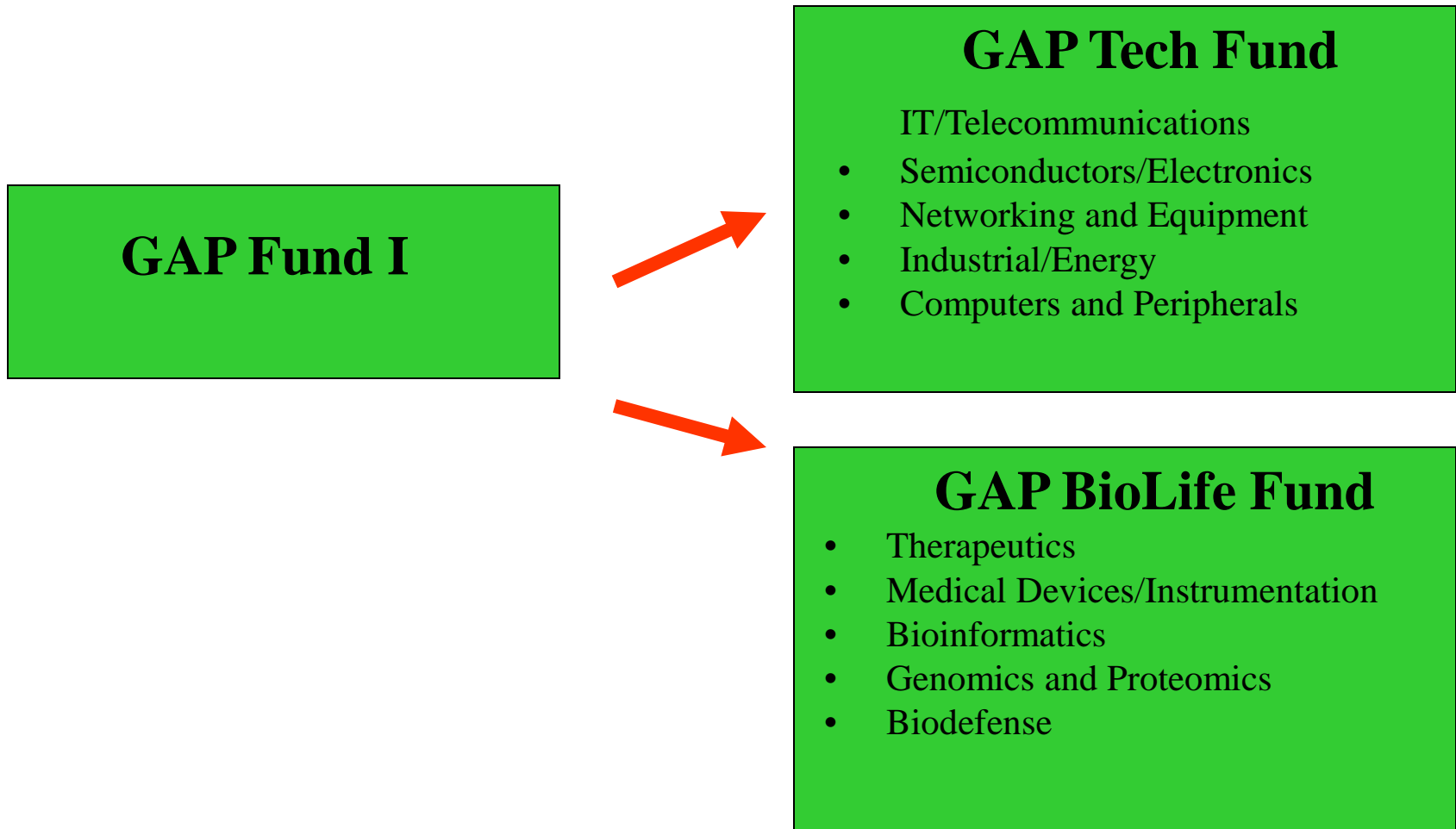
CIT Entrepreneur

- **Federal Funding Assistance Program** – CIT's Federal Funding Assistance Program identifies and accelerates opportunities for Virginia's small technology businesses to obtain SBIR and STTR awards and other government contracts. Novice and experienced grant recipients may benefit from this program.
- **GAP Fund** – CIT's GAP Fund closes the funding gap between "friends and family" and early-stage equity investment for Virginia-based technology companies. CIT's GAP Fund identifies and makes funds available to seed-stage technology firms with a high potential for commercialization, rapid growth and downstream private-equity financing.

GAP Funds Mission

Address the Commonwealth's funding gap for very early stage technology companies by providing critical pre-seed and seed level capital necessary to move Virginia's most promising and high-potential technologies from the proof-of-concept stage to the marketplace.

CIT GAP FUNDS EVOLUTION

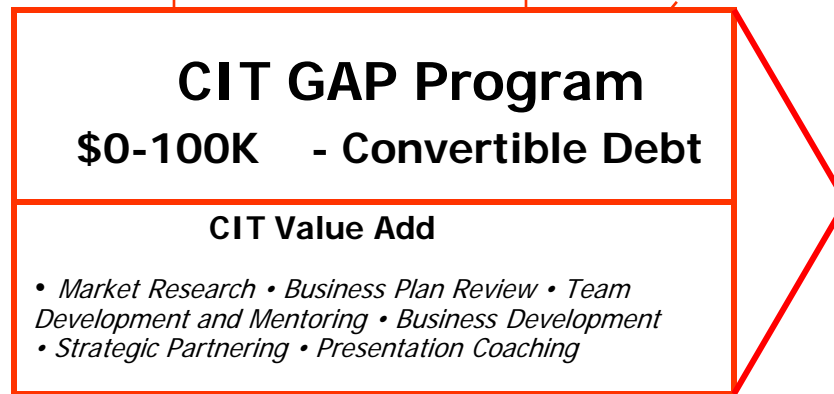
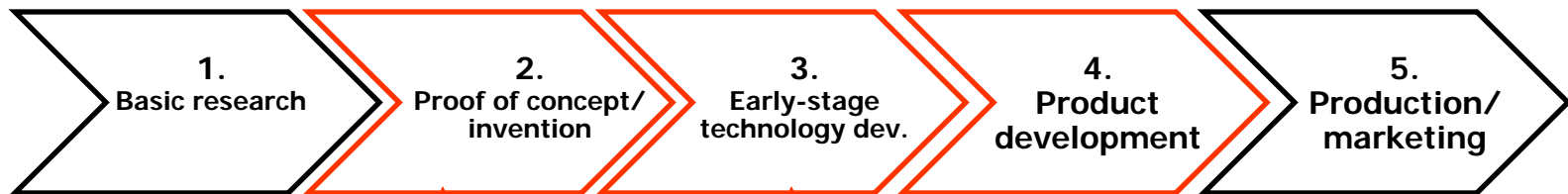


CIT GAP Fund Metrics

- Double bottom line
- 38 Investments
- \$4M GAP \$51M+ Private Equity
Leveraged (13:1)
- 14 Series A Investments
- 5 Portfolio Exits

CIT GAP Funds Program

Stages of development



**Angel or
Series "A"
Financing**

INVESTMENT CRITERIA

Management Team / Founder

- ✓ Full-Time Commitment
- ✓ Integrity
- ✓ Passion
- ✓ Coach-ability
- ✓ Creativity
- ✓ Record of High Achievement

Investment Stage

- ✓ Exclusive Seed Stage Focus
- ✓ 12-36 Months Prior to Series-A
- ✓ Pre-prototype – Pre-Launch Technologies

Investment Range

- ✓ \leq \$100K Alone; $<$ \$500K Syndication
- ✓ \leq \$500K Previous Financing
- ✓ Follow-On Investment Option

Proprietary Advantage

- ✓ Unique Technology
- ✓ Defensible IP Position
- ✓ Difficult-to-Replicate Business Model

Scalability

- ✓ Markets with Big Buying Power
- ✓ Potential for Dominant Market Position
- ✓ Large-Scale Production and Delivery Economies

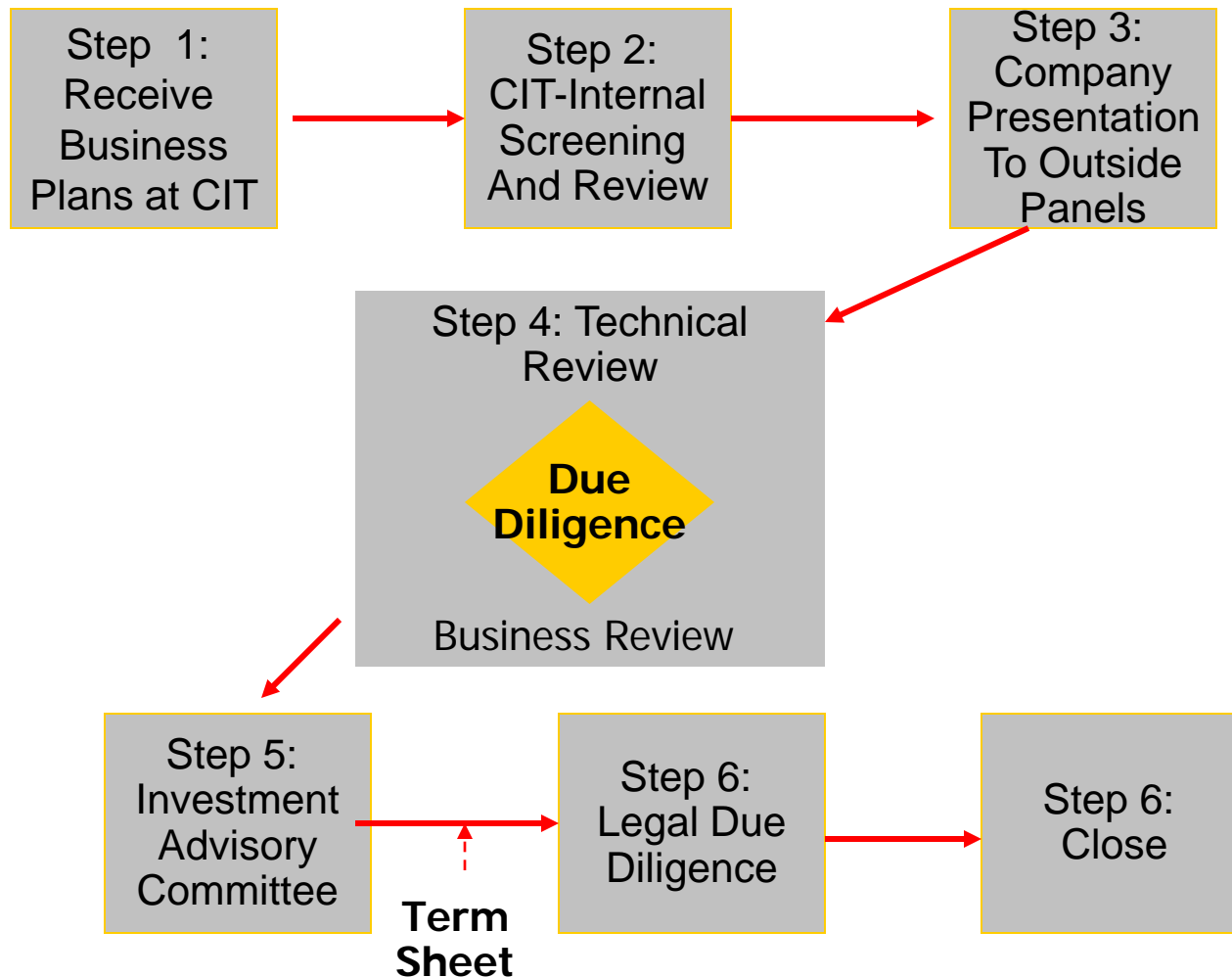
Industries

- ✓ Technology
- ✓ BioLife

Geographic Focus

- ✓ Virginia-Only

Investment Process



INVESTMENT TEAM

Tom Weithman – Managing Director, CIT GAP Funds

- 25+ Years Experience in IT and Software Company Operations and Venture Investing
- Track Record: IBM, Hughes Electronics, Consultant to Numerous Start-Ups

Erika Smith – Investment Director, GAP BioLife Fund

- 17+ Years Management and Technical Experience in Life Science Sectors
- Track Record: Palatine Consulting, Respiroics, Boston Scientific, Pittsburgh Greenhouse

Jennifer O’Daniel – Investment Analyst

- 8+ Years Experience in Business Planning, Venture Investing, and Investment Analysis
- Track Record: Virginia Tech Business Technology Center, SVIT Holding Co.

Christopher Scotton – Entrepreneur-in-Residence

- 22+ Years Experience in Software CEO, Angel investor, entrepreneur
- Track Record: The Phillips Group, Innovectra

Marco Rubin – Venture Advisor, CIT GAP Funds

- 25+ Years in Technology Consulting, Venture Capital, and Corporate Venture
- Track Record: Exoventure, Monumental Venture Partners, MCI New Ventures, Booz Allen

Portfolio Case Studies

- Miserware
- Soft Tissue Regeneration

Challenges of Tech Transfer

- Experienced management/leadership
- Understanding and developing market need (technology looking for problem)
- Stage of product development (pre-validated, pre-prototype technology)
- Capital access

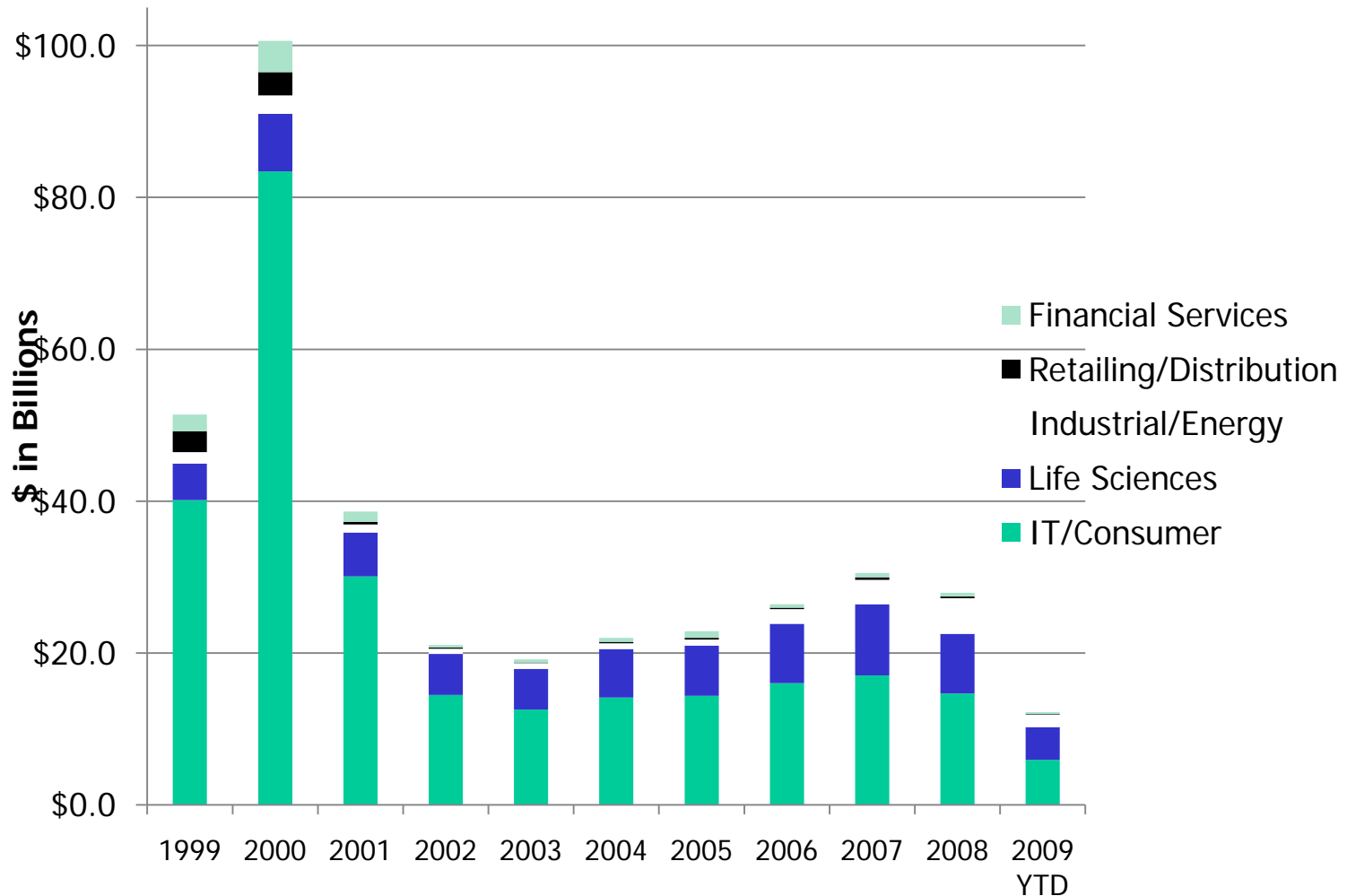
Venture Capital

- **Venture Capital Funds**
 - Pools of capital organized as LLPs or LLCs
 - Invests in companies that represent the opportunity for a high rate of return within five to seven years
 - Approximately 800 Funds Nationwide
 - 2008 NVCA – 3884 Deals; \$28.2B

VC and Angel Motivation

- New Venture investors require an “exit” or “liquidity event” that transforms their percent ownership into financial return
 - Typically requires potential for M&A (Mergers & Acquisition) or IPO (Initial Public Offering) at a multiple of 5 to 15 times total investment within three to five years for the first investment
 - Large multiple is required to offset the risks imposed with a new venture
 - Extraordinary Returns ... Long-Term Capital Gain !

What Do VCs Invest In?



Source: MoneyTree Report – NVCA/PWC/Thomson Reuters

“The Great Recession” – Immediate Impacts

VC Portfolio Consequences

- Protracted Customer Buying Cycles
- Longer Lead Follow-On Financings
- Emphasis on Lowering Burn

Depressed Exit Climate for VC-Backed Companies - 2008

- “IPO-Free” Quarter – 2Q08 – First Time in 30 Years!
- IPO Volume (6) Lowest Since 1970s
- M&A v 2007
 - Volume (335) Dropped 11%
 - Disclosed Proceeds Dropped 59%

Venture Capital

Pros

- + Investment Validates Business Plan
- + Adds Significant Value to Business
- + Ability to Significantly Assist in Business-Building Activities
- + Well-Structured Terms and Conditions Designed to Balance Management and Investor Objectives
- + Assistive in Finding Follow-On Financing

Cons

- Extensive Due Diligence Cycle
- Heavy Company Monitoring and Control
- High ROR Expected
- Moderately – Highly Dilutive
- Expectation of Preferred Stock
- Option Pool Required

Debt Financing

- **Overview**
 - Asset-Based v Cash-Flow Based Lending
- **Determinants of Credit-Worthiness**
 - Business Plan
 - Monthly Projections
 - Historical Financial Statements
 - Capitalization Tables
 - Accounts Receivable / Accounts Payable Agings
 - Investor / Service Provider / Customer References
- **SBA Alternatives**
 - MicroLoans
 - 7(a)
 - 504 Program

Debt Financing

Pros

- + Valuation Insensitive
- + Non-Dilutive
- + Less Expensive than Equity
- + “Stretches” Equity Dollars to Meet Product and Financial Milestones
- + Ability to Finance Asset Growth (Capex, A/R, Business Acquisitions)

Cons

- Loan Collateralization / Claim on Corporate Assets
- Puts Pressure on Cash Flows
- Typically Unable to Assist in Business-Building Activities
- Negligible Industry Contacts
- Restrictive Terms and Conditions

Strategic Partners

What is a “Strategic Partnership”?

- Any alliance between commercial entities that furthers business interests
- Range from Formal to Informal
- Purpose
 - Financing
 - R&D
 - Marketing / Sales / Distribution

Strategic Partners

Pros

- + Able to Add Meaningful Business Value
- + Able to Assist in Business Building Activities
- + Source for Technology, Market, or Business Model Validation
- + Numerous Industry contacts
- + Investment from Partner May Be Relatively Valuation Insensitive
- + Expect Lower ROI
- + courtship by Prospective Acquirer

Cons

- Restrictive Terms and Conditions
- May Require Certain Preferences to the Business Partner
- Can Sometimes Limit Attractiveness of Company for Future Investment

Resources

- **National Venture Capital Association.** Provides listings of venture capital firms and entrepreneur education. <http://www.nvca.org>.
- **Kauffman Foundation Entrepreneurship Resource Center.** Education on the A to Zs of business, including venture capital. <http://www.entrepreneurship.org>.
- **National Associate of Seed and Venture Funds.** Provides lists of state venture capital funds and other resources. <http://www.nasvf.org>.
- **Angel Capital Association.** Provides lists of angel groups. <http://www.angelcapitalassociation.org>.
- **Small Business Administration (SBA).** <http://www.sba.gov>
- "Financing Your Business with Venture Capital," by Frederick D. Lipman.
- "Every Business Needs an Angel," by John May and Cal Simmons
- "The First Mile: Essentials of Entrepreneurship," Edited by The Indus Entrepreneurs
- "The Portable MBA in Entrepreneurship," Edited by William D. Bygrave and Andrew Zacharakis
- *Inc. Magazine* <http://www.inc.com>
- All Business <http://www.allbusiness.com>

For Participation in the GAP Funds:

Please contact:

gap@cit.org

Also, visit the website at:

CITgapfunds.org