

February 1, 2012

Representative Cindy Acree  
Chair, Legislative Audit Committee  
c/o the Office of the State Auditor  
200 East 14<sup>th</sup> Avenue  
Denver, Colorado 80203-2211

Dear Representative Acree:

This letter contains the Venture Capital Authority's report on the effects of the results of the implementation of Article 3.5 of Title 10, C.R.S., "the Venture Capital Program Act", and is hereby submitted in accordance with 24-46-206 C.R.S.

As of December 31, 2011, the following results had occurred:

Colorado Fund I (created June 2005) is the initial fund in which the Venture Capital Authority is a limited partner. The following Colorado Fund I investments have been made to date:

- Taligen Therapeutics, Inc. (Taligen) in August 2005. Taligen is located in a distressed urban community (state-designated enterprise zone).
- Theratogs, Inc. (Theratogs) in March 2006. Theratogs is located in a designated rural county.
- Surginetics, LLC (Surginetics) in March 2006. Surginetics was located in a statewide location.
- Smart Care Clinics, Inc. (Smart Care) in March 2006. Smart Care was located in a statewide location.
- Taligen Therapeutics, Inc. (follow on investment) in June 2006. Taligen is located in a distressed urban community (state-designated enterprise zone).
- Theratogs, Inc. (follow on investment) in September 2006. Theratogs is located in a designated rural county.
- Surginetics, LLC (follow on investment) in October 2006. Surginetics was located in a statewide location.
- EnVysion, Inc. (EnVysion) in December 2006. EnVysion is located in a statewide location.
- LogRhythm, Inc. (LogRhythm) in January 2007. LogRhythm is located in a statewide location.
- Lijit Networks, Inc. (Lijit) in January 2007. Lijit is located in a statewide location.
- Theratogs (follow on investment) in February 2007. Theratogs is located in a designated rural county.

- Surginetics (follow on investment) in March 2007. Surginetics was located in a statewide location.
- Taligen (follow on investment) in May 2007. Taligen is located in a distressed urban community (state-designated enterprise zone).
- Lijit (follow on investment) in June 2007. Lijit is located in a statewide location.
- Oberon in August 2007. Oberon is located in a designated rural county.
- LogRhythm (follow on investment) in October 2007. LogRhythm is located in a statewide location.
- Atrato in December 2007. Atrato is located in a statewide location.
- Taligen (follow on investment) in January 2008. Taligen is located in a distressed urban community (state-designated enterprise zone).
- Atrato (follow on investment) in January 2008. Atrato is located in a statewide location.
- Taligen (follow on investment) in February 2008. Taligen is located in a distressed urban community (state-designated enterprise zone).
- EnVysion (follow on investment) in March 2008. EnVysion is located in a statewide location.
- EnVysion (follow on investment) in May 2008. EnVysion is located in a statewide location.
- Sierra Neuropharmaceuticals in July 2008. Sierra Neuropharmaceuticals is located in a distressed urban location (state-designated enterprise zone).
- Lijit (follow on investment) in July 2008. Lijit is located in a statewide location.
- Taligen (follow on investment) in September 2008. Taligen is located in a distressed urban community (state-designated enterprise zone).
- Oberon (follow on investment) in November 2008. Oberon is located in a designated rural county.
- Sierra Neuropharmaceuticals (follow-on investment) in January 2009. Sierra Neuropharmaceuticals is located in a distressed urban location (state-designated enterprise zone).
- LogRhythm (follow on investment) in March 2009. LogRhythm is located in a statewide location.
- EnVysion (follow on investment) in March 2009. EnVysion is located in a statewide location.
- Taligen (follow on investment) in May 2009. Taligen is located in a distressed urban community (state-designated enterprise zone).
- Aftama in July 2009. Aftama is located in a rural area.
- EnVysion (follow on investment) in October 2009. EnVysion is located in a statewide location.
- Oberon (follow on investment) in March 2010. Oberon is located in a designated rural county.
- Taligen (follow on investment) in June 2010. Taligen is located in a distressed urban community (state-designated enterprise zone).
- Lijit (follow on investment) in June 2010. Lijit is located in a statewide location.

- Taligen (follow on investment) in August 2010. Taligen is located in a distressed urban community (state-designated enterprise zone).
- Digabit (formerly known as Aftama) (follow on investment) in September 2009. Digabit is located in a rural area.
- EnVysion (follow on investment) in October 2010. EnVysion is located in a statewide location.
- Theratogs (follow on investment) in November 2010. Theratogs is located in a designated rural county.
- LogRhythm (follow on investment) in November 2010. LogRhythm is located in a statewide location.
- EnVysion (follow on investment) in January 2011. EnVysion is located in a statewide location.
- Lijit (follow on investment) in February 2011. Lijit is located in a statewide location.
- DCS in March 2011. DCS is located in a distressed urban community (state-designated enterprise zone).
- Lijit (follow on investment) in April 2011. Lijit is located in a statewide location.
- Oberon (follow on investment) in June 2011. Oberon is located in a designated rural county.
- DCS in June 2011. DCS is located in a distressed urban community (state-designated enterprise zone).

Colorado Fund II (created January 2010) is the second fund in which the Venture Capital Authority is a limited partner. The following Colorado Fund II investments have been made to date:

- Kapost in May 2010. Kapost is located in a statewide location.
- Lijit in June 2010. Lijit is located in a statewide location.
- Kapost (follow on investment) in September 2010. Kapost is located in a statewide location.
- Endoshape in April 2011. Endoshape is located in a distressed urban community (state-designated enterprise zone).
- Lijit (follow on investment) in April 2011. Lijit is located in a statewide location.
- Surefire in April 2011. Surefire is located in a statewide location.
- Surefire (follow on investment) in May 2011. Surefire is located in a statewide location.
- Rainmaker in May 2011. Rainmaker is located in a statewide location.
- Oberon (follow on investment) in June 2011. Oberon is located in a designated rural county.
- Mosaic in June 2011. Mosaic is located in a distressed urban community (state-designated enterprise zone).
- AktiVax in June 2011. AktiVax is located in a designated rural county.
- FullContact (formerly known as Rainmaker) (follow on investment) in July 2011. FullContact is located in a statewide location.

- Grogger (formerly known as Kapost) (follow on investment) in November 2011. Grogger is located in a statewide location.
  - AktiVax (follow on investment) in December 2011. AktiVax is located in a designated rural county.
- Colorado Fund I investments – As of this date, Colorado Fund I has invested a total of \$19,835,330. This total was invested as follows: (a) \$4,350,035 in businesses located in distressed urban communities, of which the amount represents 160% of the Fund's 5-year investment requirement (due June 20, 2010) of \$2,720,801; (b) \$2,992,529 in businesses located in designated rural counties, of which the amount represents 110% of the Fund's 5-year investment requirement (due June 20, 2010) of \$2,720,801; and (c) \$12,492,766 in statewide businesses (located in Colorado, but not in distressed urban communities or designated rural counties), of which the amount represents 230% of the Fund's 5-year investment requirement (due June 20, 2010) of \$5,441,602. The capital contributed to make the investments include certified capital contributed by the VCA of \$17,451,842 (includes a net of \$2,191 of capitalized interest income on two investments) and \$2,379,489 (includes a net of \$101 of capitalized interest income on two investments) contributed by the other partners of Colorado Fund I per the terms of Colorado Fund I's limited partnership agreement.
- Colorado Fund II investments – As of this date, Colorado Fund II has invested a total of \$6,151,727. This total was invested as follows: (a) \$1,500,060 in businesses located in distressed urban communities, of which the amount represents 65% of the Fund's 3-year investment requirement (due January 4, 2013) of \$1,935,733; (b) \$550,000 in businesses located in designated rural counties, of which the amount represents 28% of the Fund's 3-year investment requirement (due January 4, 2013) of \$1,935,733; and (c) \$4,101,667 in statewide businesses (located in Colorado, but not in distressed urban communities or designated rural counties), of which the amount represents 112% of the Fund's 3-year investment requirement (due January 4, 2013) of \$3,871,466. The capital contributed to make the investments include certified capital contributed by the VCA of \$5,851,298 and \$300,429 contributed by the other partners of Colorado Fund II per the terms of Colorado Fund II's limited partnership agreement.
- High Country Venture, LLC, as manager of Colorado Fund I and II, has reviewed 793 business plans to date, of which 57 were from businesses located in designated rural counties and 96 from distressed urban communities.
- The audit of the implementation of the Venture Capital Authority Program was completed by the Office of the State Auditor (OSA) in the first quarter of 2007. The OSA's report to the Legislative Audit Committee was presented in March 2007.
- The VCA committed to contribute \$21,766,408 in certified capital to Colorado Fund I and \$25,374,260 in certified capital to Colorado Fund II over each of the 10-year terms of each fund from payments the Venture Capital Authority receives from the insurance companies that purchased the premium tax credits. Since the program's

inception, \$21,766,408 of certified capital has been paid by the insurance companies to the VCA for Colorado Fund I and \$8,205,558 for Colorado Fund II.

- In addition, the insurance companies have contractually committed to purchase three additional years of annual premium tax credits from 2012 to 2014 and pay the VCA additional amounts for these tax credits. These funds have also primarily been committed to Colorado Fund II.
- The number of jobs created in Colorado from qualified investments made by CFI, as reported by CFI, is 424 and 128 for CFII. CFI has received 2 distributions from successful investments totaling \$4,289,261.
- Colorado Fund I has paid qualified distributions for expenses related to managing and operating Fund I from certified capital (contributed by the VCA) of \$3,190,546 since the program's inception, of which \$388,168 was paid in 2011. Colorado Fund II has paid qualified distributions for expenses related to managing and operating Fund II from certified capital (contributed by the VCA) of \$886,724 since the program's inception (January 2010), of which \$457,709 was paid in 2011.
- From certified capital contributed by the VCA, Colorado Fund I has invested (a) \$334,626 in 2011 and \$2,650,729 since the program's inception in businesses located in distressed urban communities, (b) \$215,117 in 2011 and \$2,861,084 since the program's inception in businesses located in designated rural counties, and (c) \$711,095 in 2011 and \$11,940,029 since the program's inception in statewide businesses (businesses located in Colorado but not in distressed urban communities or designated rural counties). From certified capital contributed by the VCA, Colorado Fund II has invested (a) \$1,474,748 since the program's inception (January 2010) in businesses located in distressed urban communities, all invested in 2011, (b) \$540,719 since the program's inception in businesses located in designated rural counties, all invested in 2011, and (c) \$2,783,170 in 2011 and \$3,835,831 since the program's inception in statewide businesses (businesses located in Colorado but not in distressed urban communities or designated rural counties).

The VCA's mission and goals follows, along with results to date:

- To provide assistance in the formation of new businesses and the expansion of existing businesses that create jobs in the state. Colorado Fund I has made total investments in businesses since the program's inception of \$19,835,330 and such businesses have reported the creation of 424 jobs in the state to date. Colorado Fund II has made total investments in businesses since the program's inception of \$6,151,727 and such businesses have reported the creation of 128 jobs in the state to date.
- To utilize the enterprise fund as a revolving evergreen fund to provide continued seed and early stage investment capital to qualified businesses. The VCA has entered into Limited Partnership Agreements that provide for return of principal and

a negotiated percent of profits to the degree that Colorado Fund I and II's investments are successful – which creates the mechanism for a revolving evergreen fund. Since Colorado Fund I and II are seed and early stage funds and it is estimated they will not begin to generate significant funds from investments until years 7-10 (based on industry expectations for seed and early stage funds in general), it is too early to evaluate performance in this area.

- To establish selection criteria and a competitive process for the selection of fund manager(s). The VCA established selection criteria and selected a fund manager after utilizing a competitive request for proposal process.
- To establish an insurance premium tax credit selling process that will provide funds for the program at an offering of no less than eighty cents on the dollar. The VCA successfully completed the sale of all tax credits at an average price of eighty-six cents on the dollar—with no individual transaction completed for less than eighty cents on the dollar.
- To invest in businesses from different geographical areas of the State with specific milestones established for such investment. Colorado Fund I has made statewide investments of \$12,492,766, distressed urban community investments of \$4,350,035 and designated rural county investments of \$2,992,529 since the program's inception. Colorado Fund II has made statewide investments of \$4,101,667, distressed urban community investments of \$1,500,060 and designated rural county investments of \$550,000 since the program's inception.

Please call me at (303) 694-6464 ext. 301 if you have any questions.

Sincerely,



Nick Lepetsos  
Chair, Venture Capital Authority

cc: Alice Kotrlik, OEDIT