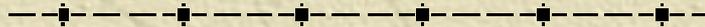




Emerging Neighborhood Markets:  
Investing in Local Businesses

Saint Louis, Missouri

August 9, 2006



# Overview of Advantage Capital Partners

- ✦ ACP is a family of funds investing in venture capital, private equity, small business, and real estate.
- ✦ Founded in 1992, ACP has now grown to employ over 35 people, with offices in Austin, New Orleans, St. Louis, New York, Tampa, Washington, D.C.; local partners in Madison, Denver and Huntsville.
- ✦ The firm has over \$700 million of institutional capital under management.
- ✦ ACP has developed unique structured-finance investment vehicles that utilize various Federal and state economic development incentives, including:
  - Certified Capital Company Programs
  - Various State Tax Credit Programs
  - Federal Loan Guarantee Programs (SBA, USDA, etc.)
  - Federal New Markets Tax Credit Program



# The New Markets Tax Credit Program

- ✦ The New Markets Tax Credit Program is a Federal program designed to attract investment capital to Low-Income Communities.
- ✦ To date, \$12.1 billion has been allocated in 233 awards across four rounds
- ✦ The program will mobilize a total of \$16 billion of capital, of which \$3.9 billion remains to be allocated in mid-2007 based on applications submitted in late 2006.
- ✦ Investors who participate in the NMTC program receive a federal income tax credit equal to 39% of the amount they invest in a Community Development Entity (“CDE”).
- ✦ A CDE must invest the capital it receives in businesses that are located in Low-Income Communities (“LICs”) within one year of the date it receives the funding.
- ✦ A CDE investor receives federal tax credits that may be taken over a seven-year period (5% in years 1-3, 6% in years 4-7) beginning with the year of investment.

# Allocation Process For NMTCs

- ✦ Allocations of credits are made by the U.S. Treasury, through a competitive process that focuses on:
  - Experience investing capital;
  - Experience in, and strategy for, raising capital;
  - Strength and depth of management team; and
  - Community impact of business plan.
- ✦ Typically, 25% or fewer of the applicants have received awards
- ✦ Advantage Capital Community Development Fund, LLC has received a total of \$230 million awarded in 3 of the 4 rounds.
- ✦ ACCDF plans to apply for the final round currently authorized, and supports extension of the program.

# Rules Governing CDEs

- ✦ A CDE is required to invest at least 85% of the proceeds of its equity issuance in Qualified Low-Income Community Businesses (QALICBs) within 12 months of funding.
- ✦ CDE is required to maintain the 85% investment level for at least 6 years; any principal returned prior to the sixth anniversary of the fundraising must be reinvested into other QALICBs within 12 months.
- ✦ CDEs are prohibited from investing in purely residential rental housing projects. Mixed-use projects with a minimum of 20% commercial revenue are permitted.
- ✦ After 7th anniversary all CDE assets can be liquidated and repaid to investor.
- ✦ Additional information on the NMTC program is available at <http://www.cdfifund.gov/programs/nmtc/index.asp>.

# Rules Determining QALICB Status

- ✦ The company is located within a low-income census tract.
- ✦ At least 40% of the services performed by the company's employees are performed in low-income census tracts.
- ✦ At least 40% of the company's tangible property is utilized in low-income census tracts.
- ✦ At least 50% of the company's gross income is derived from the active conduct of the business within low-income census tracts (This test is deemed to be met if either the services test or the tangible property test exceeds 50%).
- ✦ The company is not engaged in excluded businesses, which include: massage parlors, hot tub facilities, suntan facilities, country clubs, racetracks or other gambling facilities.

# Rules Determining QALICB Status

(continued)

- ✦ The company is not a bank, credit union or other financial institution.
- ✦ The company derives less than 80% of its revenue from the rental of residential property.
- ✦ Less than 5% of the company's assets constitute collectibles (for example, rare coins).
- ✦ Less than 5% of the company's assets constitute nonqualified financial property.
- ✦ The company has revenue or expects to have revenue within three years.
- ✦ The company has no plans to change the operations or characteristics of the business such that it would fail to meet any of the above criteria.

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# **ACP's Activity in the NMTC Program**

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# Downtown St. Louis Projects

- ✦ Includes 3 historic properties in Downtown St. Louis:

- Grace Lofts (lower left)
- Louderman Lofts (upper right)
- Rudman on the Park (lower right)



- ✦ Originally constructed between 1901-1925

- ✦ All three buildings are mixed use, residential plus commercial and/or retail

- ✦ Provided ~\$30 million of fixed-rate, low-amortization, longer-term financing

- ✦ Additional equity provided by NMTCs provided above-market buildout and/or flexible rent capability to attract commercial tenants.





# Lucas Park Grille

- ✦ Combination restaurant and grocer, in the ground floor of the Rudman on the Park building (McGowan Brothers Development Project)
- ✦ Catalyst for additional redevelopment projects in adjacent buildings, bringing significant additional capital to the community
- ✦ Main gathering spot for area residents and employees and attracts many non-residents into the neighborhood



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# Stereotaxis

- ✦ Growth-stage medical device company with innovative magnetic navigation technology for cardiovascular care
- ✦ The company designs, manufactures, and markets a magnetic navigation system for cardiac catheters
- ✦ Strategic alliances with Siemens, Philips, and a division of Johnson & Johnson
- ✦ Recently graduated from the Center for Emerging Technologies to a newly-developed building, CORTEX, in the same low-income area
- ✦ Has raised over \$190mm in capital, including \$106mm from the public markets



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# Quick Study Radiology



- ✦ Growth-stage healthcare IT company
- ✦ Provides integrated software-hardware-service solution to digitize hospital radiology departments and physician groups
- ✦ Improves quality of care and access to technology for capital-constrained community hospitals
- ✦ Graduated from suburban incubator and relocated to downtown St. Louis in order to qualify for NMTC



# Kereos

- ❖ Venture-stage biotechnology company
- ❖ Developing and manufacturing diagnostic and therapeutic particles for cancer and cardiovascular disease
- ❖ Goal is to diagnose tumors at earlier stage of development and deliver chemotherapy that is highly specific to the tumor
- ❖ Partnerships with Bristol-Myers Squibb, Philips Medical, and Washington University
- ❖ Located in award-winning Center for Emerging Technologies incubator, in a low-income area of St. Louis



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# Soda Fountain Square

- ✦ Startup restaurant company with first location in Lafayette Square area of downtown St. Louis
- ✦ Entrepreneur has one successful restaurant in this neighborhood already and is committed to the community's successful turnaround
- ✦ Family-friendly café-style food offering with flagship old-fashioned soda fountain drinks
- ✦ Destination restaurant should draw significant new commerce to this area



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# Pop Quiz

What do the following companies all have in common (other than being tremendously successful startups)?

	<i>Employees</i>	<i>Market Cap</i>	<i>Annual Revenue</i>
Apple Computer	10,211	\$8 billion	\$6 billion
Federal Express	134,000	\$20 billion	\$22 billion
Intel	78,700	\$188 billion	\$27 billion

# Answer:

All these companies received SBA loans/assistance early in their corporate histories.

	<i>Employees</i>	<i>Market Cap</i>	<i>Annual Revenue</i>
Apple Computer	10,211	\$8 billion	\$6 billion
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Small businesses have a high potential for:

- ✦ Positive economic development impact;
- ✦ Job creation;
- ✦ Superior investment returns.

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# Small Business Loan Fund

- ✦ An innovative use of NMTCs for economic development is the sponsorship and formation of small business or venture capital funds.
- ✦ ACP's SBA lending affiliate, BizCapital has made...
  - Almost 100 small business loans,
  - Totaling in excess of \$55 million.
- ✦ ACP has commitments to fund \$30 million of SBA and USDA guaranteed loans to NMTC-qualified businesses.
- ✦ These loans could provide various benefits to the businesses, including:
  - Longer amortization periods;
  - Lower interest rates;
  - Long-term fixed interest rates; and/or
  - More flexible underwriting criteria.

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# Contact Information

## Louis T. Dubuque

Principal

7733 Forsyth Blvd., Suite 1850

Saint Louis, MO 63105

[ldubuque@advantagecap.com](mailto:ldubuque@advantagecap.com)

Phone: (314) 725-0800

Fax: (314) 725-4265

## Carter L. Dunkin

Senior Vice President

7733 Forsyth Blvd., Suite 1850

Saint Louis, MO 63105

[cdunkin@advantagecap.com](mailto:cdunkin@advantagecap.com)

Phone: (314) 725-0800

Fax: (314) 725-4265

## Joe Stock

SBA/USDA Specialist

100 N. Tucker, Suite 530

St. Louis, MO 63101

[jstock@advantagecap.com](mailto:jstock@advantagecap.com)

Phone: (314) 621-4414

Fax: (314) 241-4099

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