

IOWA CAPITAL INVESTMENT BOARD 2006 ANNUAL REPORT

BACKGROUND

The Iowa Capital Investment Board ("Board") was established in 2002 by an Act of the General Assembly (2002 Iowa Acts, House File 2078). The Board is created as a state governmental board. The purpose of the Board is to mobilize venture equity capital for investment that will result in a significant potential to create jobs and to diversify and stabilize the economy of the state of Iowa.

The Board consists of five voting members and two nonvoting members. The five voting members are appointed by the Governor and subject to confirmation by the Senate. One nonvoting member is appointed by the Majority Leader of the Senate, and one nonvoting member is appointed by the Speaker of the House. Due to the even split in the Iowa Senate, each floor leader of the Senate appointed a nonvoting member in 2005. The Board is a public board subject to public notice and open meetings.

The primary duties of the Board include the following:

- 1) Develop a system for issuance, registration and authorization of tax credits for investments in qualifying businesses and community-based seed capital funds as provided in Iowa Code section 15E.43. This program provides for a tax credit equal to 20% of the equity investment in a qualifying business or community-based seed capital fund.
- 2) Establish a system for the issuance and redemption of tax credits for investments in venture capital funds as provided in Iowa Code section 15E.51. This program provides for a tax credit equal to 6% of the equity investment in a venture capital fund.
- 3) Establish criteria and procedures for the issuance, transfer and redemption of contingent tax credits for investments made in the Iowa Fund of Funds administered by the Iowa Capital Investment Corporation as provided in Iowa Code section 15E.66.

ACTIVITIES DURING 2006

The Board held meetings in March, June, September and December 2006. During 2006, fourteen qualifying businesses, one community-based seed capital fund and two venture capital funds were certified by the Board. A list of the qualifying businesses, community-based seed capital funds and venture capital funds that have been certified by the Board are attached to this report. In addition, two qualifying business applications were denied, and one application was tabled by the Board pending the receipt of additional information.

In addition, a joint meeting was held with the Iowa Capital Investment Corporation on November 1, 2006 to review progress on all venture capital initiatives currently being conducted in Iowa.

TAX CREDIT CERTIFICATES

The tax credits for the qualifying businesses and community-based seed capital funds are limited to \$10 million, and cannot be taken until 3 years after the investment was made. For example, any investments made in 2002 that qualify for the tax credit cannot be claimed until the 2005 tax year. With the passage of 2005 Iowa Acts, House File 831, tax credits will be issued until the total \$10 million cap is reached, and no more than \$3 million of tax credits can be issued in any fiscal year. Tax credit certificates were issued during the 2006 calendar year as set forth below, with most of the certificates relating to investments made either late in 2005 or during 2006.

	Tax Credits Issued	Dollar Amount of Tax Credits
Investments made in 2002	8	\$25,750
Investments made in 2004	3	\$45,500
Investments made in 2005	444	\$1,695,209
Investments made in 2006	<u>424</u>	<u>\$2,723,449</u>
Totals	879	\$4,489,908

It should be noted that the total tax credits issued in calendar year 2006 of \$4,489,908 include tax credits issued in both the fiscal years ending June 30, 2006 and June 30, 2007. The amount issued for each fiscal year has not exceeded \$3 million.

The tax credits for venture capital funds are limited to \$5 million, and cannot be taken until 3 years after the investment was made. There is no cap per fiscal year regarding these credits. Tax credit certificates were issued during the 2006 calendar year as set forth below, with most of the certificates relating to investments made during 2006.

	Tax Credits Issued	Dollar Amount of Tax Credits
Investments made in 2002	2	\$26,100
Investments made in 2004	1	\$4,500
Investments made in 2005	5	\$30,000
Investments made in 2006	<u>44</u>	<u>\$549,323</u>
Totals	52	\$609,923

A log listing the total of tax credit certificates issued to investors of each qualifying business, community-based seed capital fund and venture capital fund is attached to this report.

No contingent tax credit certificates were issued in 2006 relating to investments in the Iowa fund of funds.

FUTURE ACTIVITY AND CONCERNS

The Board believes that capital formation in Iowa has been significantly benefited by the availability of the tax credits. We believe the Qualifying Businesses which have been registered and the existence of a venture capital infrastructure as evidenced by the Community-Based Seed Capital Funds and Venture Capital Funds which have registered will benefit the State of Iowa in the future. Usage of the tax credits is finally starting to meet expectations, since \$6.7 million of the \$10 million of available tax

credits have been issued through December 31, 2006. The Board urges that consideration be made by the Iowa legislature to reauthorize and extend the program by making more than \$10 million of tax credits available. In addition, the Board expects that additional contingent tax credits will be issued early in 2007 relating to the Iowa fund of funds.

In addition, the Board has a concern with a provision of the venture capital fund program. A situation arose where a fund was set up to invest solely in one company which was too large to be considered a qualifying business. Under the current statute, the Board had no alternative but to certify this fund as a qualifying venture capital fund. Consideration should be given to discuss a possible statutory change since it did not appear to be the intent of the legislature to certify venture capital funds that will only invest in one business.

SUMMARY

The Board continues to meet on a periodic basis to review applications from qualifying businesses, community-based seed capital funds and venture capital funds. Also, tax credit certificates continue to be issued by the Board for these qualifying investments. In addition, the Board will continue to work with the Iowa Capital Investment Corporation and the Iowa Department of Economic Development Board to promote venture capital and economic development activities in Iowa.

**ICIB APPLICATIONS LOG – QUALIFYING BUSINESSES
AND COMMUNITY-BASED SEED CAPITAL FUNDS**

<u>Date Received</u>	<u>From</u>
1 12/31/02 Approved 2/24/03 Rescinded 9/2/04	Brain Fingerprinting Laboratories, Inc. Ernest Robson, III, President 108 West Palm Drive Fairfield, IA 52556
2 01/02/03 Approved 2/24/03	Proplanner, Inc. Dave Sly, CEO & President 2321 North Loop Drive Ames, IA 50010
3 01/02/03 Approved 2/24/03	Sciengistics, LLC Peter Porto, President 300 SW 5 th Street, Suite 200 Des Moines, IA 50309
4 01/02/03 Approved 2/24/03	Emerging Growth Capital Fund, LP Gregg Barcus, President 500 SW 5 th Ave., Suite 200 Des Moines, IA 50309
5 01/02/03 Approved 2/24/03	Des Moines Technology Business Accelerator, LLC (dba Emerging Growth Group) Gregg Barcus, President 300 SW 5 th St, Suite 200 Des Moines, IA 50309
6 01/03/03 Approved 2/24/03	Newsletter Ease, LLC Thomas Hamilton, CEO 300 SW 5 th St., Suite 200 Des Moines, IA 50309
7 01/03/03 Approved 2/24/03	Web Interactive Solutions, LLC George Wood, President 300 SW 5 th St. Suite 200 Des Moines, IA 50309
8 01/06/03 Approved 2/24/03	Lightwaves Systems, Inc. Phil Kennedy, President & CEO 1131 Wenig Road NE Cedar Rapids, IA 52402

- 9 01/28/03 **Ames Seed Capital LLC**
Approved 2/24/03 David Maahs, Secretary
1601 Golden Aspen Drive, Suite 110
Ames, IA 50010
- 10 02/20/03 **Harvest Services, Inc.**
Rejected 6/9/03 Joseph Meshi, CEO
3076 99th St.
Des Moines, IA 50322
- 11 03/03/03 **Reality Sports Entertainment, Inc**
Approved 6/9/03 Jack E. (Cactus Jack) Barringer
3203 Greenwood Circle
Ames, IA 50517
- 12 03/31/03 **Phytodyne, Inc.**
Approved 6/9/03 Joe Leafstedt, Chief Operating Officer
2711 South Loop Drive, Suite 4400
Ames, IA 50010
- 13 03/31/03 **Phasient Learning Technologies, LLC**
Approved 6/9/03 Paul Juffer, Member
3737 Woodland Avenue, Suite 200
West Des Moines, IA 50266
- 14 03/31/03 **Full Partner, LLC**
Approved 6/9/03 Scott Hickey, CEO & President
2280 W. Tyler Ave., Suite 204
Fairfield, IA 52556
- 15 03/31/03 **Combisep**
Approved 6/9/03 Dr. Shelley Coldiron, CEO
2711 South Loop Drive, Suite 4200
Ames, Iowa 50010
- 16 05/14/03 **Prairie Logic, Inc.**
Approved 6/9/03 Joe Stevens, CEO
209 Main Street
Ames, Iowa 50010

- 17 6/13/03 **Eastern Iowa Angel Investors, LLC**
Approved 12/18/03 Joseph E. Peterson, Secretary
2501 Sugar Bottom Rd.
Solon, IA 52333
- 18 8/20/03 **North Iowa Venture Capital Fund, LLC**
Approved 10/31/093 Robert H. Lembke
North Iowa Area Community College
John Pappajohn Entrepreneurial Center
500 College Drive
Mason City, IA 50401
- 19 8/29/03 **Cedar Valley Venture Fund #1**
Approved 12/18/03 Katherine Cota-Uyar, Program Manager
John Pappajohn Entrepreneurial Center
University of Northern Iowa
Cedar Falls, IA 50614-0130
- 20 10/30/03 **Waters Hot, Inc.**
Approved 12/18/03 Kevin Flammang, President
3480 440th Street
Orange City, IA 51041
- 21 11/13/03 **MagnaLynx Inc.**
Approved 12/18/03 Scott A. Irwin, President & CEO
1606 Golden Aspen Drive, Suite 102
Ames, IA 50010
- 22 03/12/04 **ANE Technology Services**
Approved 9/02/04 Joel Walker, CEO
5515 NW 88th Street
Johnston, IA 50131
- 23 05/28/04 **Data Builder, Inc.**
Approved 6/24/04 Erich Lemke, President
6000 Grand Avenue
Des Moines, IA 50312

- 24 06/17/04 **Silver Beacon Media LLC**
Approved 6/24/04 Ken Yager, CFO/COO
P.O. Box 482
Bettendorf, IA 52722
- 25 09/29/04 **NLG Investors, LLC**
Withdrew 10/04 James T. Campney, Manager
1444 NW 124th Court
Des Moines, IA 50325
- 26 11/16/04 **Polymer Pipe Technology, LLC**
Approved 12/17/04 Daniel Ochylski, CEO
200 East Grand Avenue, Suite 390
Des Moines, IA 50309
- 27 11/16/04 **Star Pack Industries, LLC**
Approved 12/17/04 David Abbott, Interim CEO
c/o NewVentures
130 West Second Street
Davenport, IA 52801
- 28 12/08/04 **Iowa Commitment Fund, LP**
Approved 12/17/04 Gregg Barcus, President
6000 Grand Avenue
Des Moines, IA 50325
- 29 02/24/05 **CMNET Incorporated**
Approved 3/25/05 Dr. Abir Qamhiyah
2501 North Loop Drive, Suite 1606A
Ames, IA 50010
- 30 05/05/05 **Mob Shopper, LLC**
Approved 6/30/05 Craig Wilson, President
New Ventures Center
331 West Third Street, Suite 100
Davenport, IA 52801
- 31 05/20/05 **Spot Trac, Inc.**
Approved 6/30/05 Richard Marriott, President
300 Walnut Street, Suite 211
Des Moines, IA 50309-2258

- 32 06/15/05 **BioProtection Systems, Inc.**
Approved 6/30/05 Carl Langren, Chief Financial Officer
2901 South Loop Drive, Ste 3900
Ames, Iowa 50010-8646
- 33 10/10/05 **Solo Direct Connect, LLC**
Approved 2/8/06 Andy Tyrrell, President
3610 73rd Street
Moline, IL 61265
- 34 10/21/05 **StowMaster Inc.**
Approved 1/9/06 Matt Larson, President
209 N. Western Street
Lake Mills, IA 50450
- 35 11/07/05 **Walker Steel Frames Homes, Inc.**
Tabled 12/16/05 William Walker, CEO
Denied 3-31-06 1417 280th Street
Salix, IA 51052
- 36 11/08/05 **Blue Sky Creamery, Inc.**
Approved 12/16/05 Thomas J. Paskach, President & CEO
1323 XB Place
Boone, IA 50036
- 37 11/21/05 **Freedom Fuels, LLC**
Approved 12/16/05 Dale W. McBride, Treasurer
P.O. Box 356
Hampton, IA 50441
- 38 11/30/05 **Rock River Capital, LLC**
Approved 12/16/05 Bruce Jennings, Chair
1302 S. Union Street
Rock Rapids, IA 51246
- 39 12/31/06 **Dynamic Broadband Inc.**
Approved 3-31-06 Mike Brown, President
2750 1st Avenue NE, Suite 200
Cedar Rapids, IA 52402

- 40 2/10/06 **Absolute Energy, LLC**
Approved 3-31-06 Rick Schwarck, President
205 West 4th Street, PO Box 265
St. Ansgar, Iowa 50472
- 41 2/24/06 **Raccoon Valley Biodiesel, LLC**
Approved 3-31-06 Willis "Bill" Strawn, Project Coordinator
303 East Lakeshore Drive
Storm Lake, Iowa 50588
- 42 2/27/06 **LXI Enterprise Storage LLC**
Tabled 3-31-06 Nancy Oliver, CEO
and 100 First Street N.W. Suite 200
Tabled 6-8-06 Mason City, Iowa 50401
Denied 9-22-06
Approved 11-1-06
- 43 3/16/06 **Security Coverage, Inc.**
Rejected 3-31-06 Robert O'Dell, President & CEO
230 2nd Street SE, Suite 212
Cedar Rapids, IA 52401
- Resubmitted 5/31/06**
Tabled 6-8-06
Approved 9-22-06
- 44 4/07/06 **Wholesome Harvest**
Tabled 6-8-06 Wende Elliott, President
Approved 6-19-06 PO Box 277, 25623 – 710th Ave.
Colo, IA 50056
- 45 4/17/06 **Homeland Energy Solutions, LLC**
Approved 6-8-06 Pat Boyle, V.P. Project Development
P.O. Box 90
Cresco, IA 52136
- 46 4/27/06 **Future Health Inc.**
Approved 6-8-06 Dr. Steven J. Kraus, President and CEO
513 North Main Street
Carroll, IA 51401

- 47 5/22/06 **Western Iowa Growth Fund**
Approved 6-8-06 Rick Hunsaker, Manager
c/o Region XII COG, PO Box 768
Carroll, Iowa 51401
- 48 5/30/06 **East Fork Biodiesel, LLC**
Approved 6-8-06 Kenneth M. Clark, President
105 N. Hall Street, PO Box 21
Algona, IA 50511
- 49 7/27/06 **The Perfect Circle Corporation**
Approved 9-22-06 Kevin Dolphin, CFO
103 E. State Street, Ste 619
Mason City, IA 50401
- 50 7/31/06 **Verg, LLC**
Tabled 9-22-06 William Staib, President & CEO
Approved 11-1-06 2343 Wickham Circle
Coralville, IA 52241
- 51 10/12/06 **Edecen Financial Services LLC**
Tabled 12-21-06 Steve Iseminger, Managing Partner
300 Reed Street, PO Box 105
Akron, IA 51001
- 52 11/07/06 **MVP Holdings, LLC**
Denied 12-21-06 Jim Nodland
1941 Highway 86
Milford, IA 51351
- 53 11/14/06 **ezPay, LLC**
Approved 12-21-06 John P. Trickel, Chief Executive Officer
5271 Merle Hay Road
Johnston, IA 50121
- 54 12/19/06 **Northern Bio Energy, LLC**
Approved 12-29-06 Ron Hickman, CEO
4720 Mortensen Road, Suite #105
Ames, IA 50014

ICIB APPLICATIONS LOG – VENTURE CAPITAL

<u>Date Received</u>	<u>From</u>
1-V 05/15/03 Approved 6/9/03	AAVIN Equity Partners I, LP James Thorp, Manager 118 Third Ave. S.E., Suite 630 Cedar Rapids, IA 52401
2-V 08/20/03 Tabled 10/31/03	North Iowa Venture Capital Fund, LLC Robert H. Lembke, President North Iowa Area Community College – John Pappajohn Entrepreneurial Center 500 College Drive Mason City, IA 50401
3-V 12/12/03 Approved 12/18/03	Iowa First Capital Fund, LP Dennis Wangeman 222 Third Ave. SE, Suite 12 PO Box 607 Cedar Rapids, IA 52406-0607
4-V 09/13/04 Approved 09/30/04	WestWind Partners, LLC Thomas Glenn Rotherham, Senior Vice President 249 Research Parkway Davenport, IA 52806
5-V 09-29-04 Approved 12-1-04	NLG Investors, LLC James T. Campney, Manager 1444 NW 124 th Court Des Moines, IA 50325
6V 09/07/96 Approved 9-22-06	Iowa First Capital Fund II, LP Mark J. Drish, Member of General Partner 222 Third Avenue SE, Suite 12 PO Box 607 Cedar Rapids, IA 52406-0607
7V 11/27/06 Approved 12-21-06	NLG Series “C”, LLC James T. Campney, Manager 1444 NW 124 th Ct. Des Moines, IA 50325

ICIB APPLICATIONS LOG - QUALIFYING BUSINESS

Qualifying Business	Status	Credits 05	Credits 06	Credits 07	Credits 08	Credits 09
Brain Fingerprinting Laboratories, Inc.	Approved 2/03 Rescinded 8/04	* 0.00	* 0.00			
Proplanner Inc.	Approved 2/03	80,000.00	45,000.00	64,780.00	62,724.60	
Sciengistics, LLC	Approved 2/03	14,400.00	1,000.00			
Des Moines Technology Business Accelerator, LLC	Approved 2/03	20,480.00	9,880.00			
Newsletter Ease LLC	Approved 2/03	26,800.00	2,000.00			
Web Interactive Solutions	Approved 2/03	0.00	0.00			
Lightwaves Systems, Inc.	Approved 2/03	55,000.00	68,400.00	91,668.20	29,000.00	51,000.00
Harvest Services, Inc.	Rejected 6/03					
Reality Sports Entertainment, Inc.	Approved 6/03	61,250.00	42,500.00	29,500.00	14,000.00	
Phytodyne Inc.	Approved 6/03	0.00	0.00			
Phasient Learning Technologies, LLC	Approved 6/03	0.00	0.00			
Full Partner, LLC	Approved 6/03	0.00	0.00			
Combisep	Approved 6/03	0.00	0.00			
MiCoy (formerly Prairie Logic Inc.)	Approved 6/03	0.00	6,000.00	20,000.00	22,000.00	6,140.80

Waters Hot, Inc.	Approved 12/03	0.00	24,000.00	56,500.00	140,600.00	116,799.89
MagnaLynx, Inc.	Approved 12/03	0.00	25,000.00	53,900.00	35,000.00	1,000.00
ANE Technologies, Inc.	Approved 9/04				2,500.00	
Data Builder, Inc.	Approved 6/04			50,900.00	130,000.40	12,404.60
Silver Beacon Media LLC	Approved 6/04					
Polymer Pipe Technology LLC	Approved 12/04					
Star Pack Industries, Inc.	Approved 12/04					
Cmnet Incorporated	Approved 3/05			2,000.00		
Mob Shopper LLC	Approved 6/05					
Spot Trac Inc.	Approved 6/05				114,700.00	
BioProtection Systems, Inc.	Approved 6/05				305,350.40	
Solo Direct Connect, LLC	Approved 1/06					
StowMaster Inc.	Approved 1/06					50,000.00
Walker Steel Framed Homes	Denied 3/06					
Blue Sky Creamery, Inc.	Approved 12/05					14,800.00
Freedom Fuels LLC	Approved 12/05				884,150.00	1,044,800.00
Dynamic Broadband	Approved 3/06				50,000.00	
Absolute Energy LLC	Approved 3/06				4,000.00	196,000.00
Raccoon Valley Biodiesel	Approved 3/06				130,000.00	

LXI Enterprise Storage	Tabled 3/06					54,000.00
Security Coverage Inc.	Denied 3/06 Approved 9/06					53,000.00
Wholesome Harvest Inc.	Approved 6/06					5,000.00
Homeland Energy Solutions	Approved 6/06					265,000.00
Future Health Inc.	Approved 6/06					
East Fork Biodiesel	Approved 6/06					769,000.00
Perfect Circle Corporation	Approved 9/06					59,000.00
Verq LLC	Approved 11/06					
TOTAL		257,930.00	223,780.00	369,248.20	1,924,025.40	2,697,945.29

* Tax Credits previously issued totaling \$41,303.12 for 2005 and \$19,000.00 for 2006 have been rescinded.

ICIB APPLICATIONS LOG - COMMUNITY-BASED SEED CAPITAL FUNDS

Community Based Seed Capital Fund	Status	Credits 2005	Credits 2006	Credits 2007	Credits 2008	Credits 2009
Emerging Growth Capital Fund LP	Approved 2/03	71,488.88	70,641.62	69,747.38		
Ames Seed Capital LLC	Approved 2/03	45,000.00	54,775.66	51,651.41	20,581.27	
Eastern Iowa Angel Investors, LLC	Approved 12/03		141,000.00	65,000.00		
North Iowa Venture Capital Fund, LLC	Approved 10/03		82,237.51	82,237.51		
Cedar Valley Venture Fund #1	Approved 12/03		119,600.00	67,600.00	6,000.00	
Iowa Commitment Fund LP	Approved 12/04			119,387.81	100,017.20	15,503.99
Rock River Capital LLC	Approved 12/05				43,650.00	
Western Iowa Growth Fund	Approved 6/06				24,000.00	10,000.00
Total		116,488.88	468,254.79	455,624.11	194,248.47	25,503.99

ICIB APPLICATION LOG - VENTURE CAPITAL FUNDS

Venture Capital Fund	Status	Credits 2005	Credits 2006	Credits 2007	Credits 2008	Credits 2009
AAVIN Equity Partners I, LP	Approved 6/03	200,448.00		93,825.00	133,740.00	92,723.16
North Iowa Venture Capital Fund LLP	Tabled 10/03					
Iowa First Capital Fund LP	Approved 12/03		384,600.00			
West Wind LLC	Approved 9/04				609,000.00	
NLG Investors LLC	Approved 11/04			91,800.00		
Iowa First Capital Fund II, LP	Approved 9/06					456,600.00
Total		200,448.00	384,600.00	185,625.00	742,740.00	549,323.16