

**SECTION 3. OPERATIONS, INVESTMENT AND OVERSIGHT PROCESS**

**INSTRUCTIONS.** In this section, unless otherwise noted, please limit narrative for each question or sub-question responses to 8 lines, 12 pt. Times Roman, using the pre-set margins.

**301. Deal flow.**

**301.1** Per year, how many business plan submissions that fall somewhat within your investing space, would you consider to constitute "adequate" deal flow?

300-500

*Is this # realistically obtainable*

**301.2** Discuss your marketing strategies for achieving this level of deal flow.

We will achieve quality deal flow by marketing the firm to and with VC networks, an aggressive Public Relations campaign, a comprehensive Internet Presence, firm Brochures and Materials, a Public Presence in workshops, chambers of commerce, and schools, and Economic Development Corporations and Authorities. The firm will engage in expanding on its banking, accounting, legal, VC, financial intermediaries, and related relationships gathered over the last 30 years in the region.

*Weak*

*Names?*

**301.3** For the fund as a whole (vs. by principal) identify your significant sources of deal flow, including the sources of deals that are cited in Exhibit F for each principal, and categorize them by whether they are existing or prospective.

The significant sources of deal flow are:

*Not sources of quality VC deal flow*

**Business Development Organizations** (Existing) Small Enterprise Assistance Funds (SEAF), Greater Atlanta Small Business Project ("GRASP"), One Stop Capital Shop (Sanctioned by the City for all capital programs for new businesses), Georgia Association of Black Business Organizations, Atlanta Neighborhood Development Project, Augusta Neighborhood Development Corporation, Miami-Dade Empowerment Zone Trust, One Georgia (Rural business development advocate).

**Accounting firms** (Existing) Deloitte and Touche, Ernst and Young, Banks Finley and White (southeastern minority firm), Cherry Baekart CPA's (rural Georgia and Carolina's), and others.

**Law Firms** (Existing) Arnall Golden and Gregory, Kilpatrick and Cody, Powell Goldstein, and Tew Cardenas (Miami, FL)

**Public Development Authorities** (Existing) Atlanta Development Authority, Miami-Dade Empowerment Zone Authority, Dekalb County Incubator, Fulton County Incubator, Birmingham Economic Development Council, Richmond County (Augusta, GA) Bond Council, and various state business attraction and retention authorities.

*Not top tier*

*What type of deal flow does Applicant expect*

Notification of Interest

It will be the policy of the SBIC to respond on a FIFO Basis. Responses may take 2-3 weeks (possibly more) depending on outside commitments, deals under review, fund objectives, community involvement, area of focus, etc.

Some responses may be more immediate if a fairly quick assessment is made that the prospect stands little opportunity to gain material interest. The Partner, lead analyst or General Partner in the fund will generate the notification letter.

Principals/Association Interview

Typically, at least one partner will be in a meeting with an associate to interview the prospective client. The purpose of two, and maybe more representatives of Diamond is to make certain that a partner's perspective and review are incorporated into the presentation and consideration.

In the meeting, it will be the responsibility of the partners to initially assess the competence of the management team, product viability, business viability, market viability, and community impact on the investment. These meetings will be scheduled internally when Diamond's partners believe or have met with the principals and believe that a term sheet will be negotiated and issues outlined. //

Meeting Location

Site visits will always be encouraged where practicable. Depending on the judgment of the lead partner/associate the first or second meeting can be at the potential firm's site. The assessment will be based on the particulars of the business, other portfolio team members available to meet, type of business, and level of interest.

*Not a concern w/ our program  
Should always visit before investing*

Decision to Proceed

The decision to proceed will be based on the amount of financing needed, nature and scope of the business, market opportunity, type of business, (service or product), capital needed to secure the opportunity, preliminary discussion on valuation, market maturity, lines of revenue, management teams and other written research available directly on making a portfolio investment decision.

At this point, the partners will have gathered or have significant information for a detailed investment memorandum and formal vote. The authorization to proceed with the investment and purchase securities will require a unanimous vote.

*This Summary indicates a lack of understanding as to how the VC process works*

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Technology

Reviewing the technology that the company has acquired, is marketing, or is using as still viable and is not subject to any major disruption. Additionally, we will review engineering and manufacturing reports or prototypes. Diamond will make extensive use of computers and technologies to assist with oversight. Examples include:

- Subscribing to trade journals and notifications of industry announcements.
- Requiring e-mail updates and file notes of conversations with principals of a portfolio firm
- Creating an intranet for staff and portfolio investments
- Attending SBA conferences, community venture capital conferences, and industry trade shows

In summary, there will be a host of environmental, legal, business and marketing factors that affect this decision process.

313. What are your criteria for termination or disposition of portfolio investments, under different circumstances, e.g., success, loss, "living dead". (Take as much space as necessary to answer this question fully.)

The criteria to move to a liquidity event (successful investment) starts with the term sheet and due diligence of the prospective company. The review before making an investment is made will be in establishing multiple prospects for an exit.

The decision to exit will be governed by sections of the SBA regs dealing with exiting investments articulated earlier in answering the understanding of section 108. Generally speaking, when annual valuations and evaluations are done and new contracts are reviewed, Diamond will start readying the firm for exit consideration at the board meetings. After the final round of investment, the SBIC will look towards the various exit opportunities based on achieving the IRR objectives of the fund.

Finally, when the SBIC evaluates that it has done enough to add value, that the time period negotiated with the firm for an exit or as permitted by SBA, then the fund managers will intensify the exit process.

Disposing (a loss situation) of an investment nearly mirrors the reasons to make follow on investments. Accordingly, it may be best to answer this question in terms of a checklist of items to review in a file that would lead to a disposition decision.

*What is  
touch of  
Jibberish*

*Doesn't seem  
v fully grasp  
the process*

*IRA Contact  
Don't get ref*

?

?

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- a. Has the company been or is anticipated to be involved in litigation that will exhaust its operating resources?
- b. Is there a reliable exit strategy acquisition suitor, or merger opportunity in the foreseeable future?
- c. Has there been a major turnover in key management and operations personnel?
- d. Is the technology obsolete?
- e. Have independent accountants issued warnings that the company may not survive by giving a "going concern opinion"?  
*↳ What about early stage investment*
- f. Are key contracts, customers, and relationships threatened or actually lost such that business revenues, profits, and margins will decline appreciably.
- g. Has the company failed, on a consistent basis, to meet any of its key milestones?
- h. Does the product work or is there a demand for the service?
- i. Can the product(s) be manufactured?
- j. Are there indications in the market place that the industry has declined or is no longer as originally projected or reported?
- k. Will there be adequate profit margins to sustain the company or will losses mount considerably?

Where there is a success, the company will accordingly evaluate the exit strategy. Some factors to be considered are:

- a. Impact on the community of the exit strategy negotiated or available. Will the exit generally affect cash flow, loss of jobs, or economic deprivation in the community?
- b. What multiple of earnings can be obtained from a suitor to orderly divest from the client?
- c. Analyze the terms of refinancing through debt, or an ESOP wishing to purchase the company at an appropriate multiple.

*Important*

*Don't understand any of this*

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315. Identify and discuss any additional potential risk factors specific to the fund's strategy and specific safeguards contemplated to preserve investor capital, not discussed above. (For example, you may want to discuss any particular risks in your exit strategies, or those resulting from industry or geographic concentration.)

There is potential risk in this market segment.

WOMEN/MINORITIES: This is a highly underserved market especially in the southeast. It will be very important to identify managers with a proven track record and with the energy and talent to execute a business plan.

SAFEGUARD: A thorough background check, referrals from other funds (word of mouth at major trade shows.) *not your typical due diligence source*

UNDERSERVED AREAS: The typical investment will be in or near a depressed area that usually will be stricken by poverty and low-household base income. The result is that the business may not be attractive to bring in new talent for safety or quality of life issues. *Flawed Strategy*

SAFEGUARD: Invest in businesses with superior products and services that transcend the underserved areas. While the portfolio business can recruit in the area, its operations must reach its client base in large areas, nationally, or internationally. *? Explain*

LACK OF A CONVENTIONAL EXIT. The exit strategy typically available such as IPOs or mergers, acquisitions and buyouts may be contrary to the public policy of the fund. *Not Acceptable*

SAFEGUARD: The Fund will need to be creative in its structure and support initiatives that allow for different types of liquidity events. The Fund will also seek to impress upon management that public policy led to the creation of incentives that create capital and seek equality with the venture when reviewing exit strategies. *?*

LIMITED EXPOSURE TO DIGITAL TECHNOLOGIES: Typically, underserved areas lack automation and access to digital technologies commonly known as the "digital divide". The exposure to advanced technologies is limited. *Not comfortable with this solution*

SAFEGUARD: Engaging Colleges and Universities in mentor relationships with the client firm to assist in the transition to a digital/automated presence. Also, by taking a concerted view toward installing security in the businesses before installing technology that will assist the company in growth and competition in its industry. *? How*

DEBT SECURITIES MAY BE BURDENSOME TO CASH FLOW: By principally issuing debt securities, some firms may not be able to service the debt and thus will default on repayment and fail to perform.

F2.6 Discuss lessons learned from any investments written off, sold, or disposed of at a loss from this portfolio. (Please be succinct and to the point.)

In the few instances where we wrote off all or a part of the investments , we learned that even the best (on paper) management teams often don't perform in new situations and need assistance from advisors and from technical assistance entities. The best way to manage this "newness" is to stay actively involved with the firm, sometimes on a weekly basis.

*What does this mean?*

This does not mean that they were incapable, but a typical emerging or developing firm in a LMI area has more need for guidance, monitoring, and oversight. They have additional community impact requirements such as job creation, building in new areas with a retrained labor pool and other consideration that go with public-sector financing.

*Irrelevant to the SBIC program*

It has been our experience with turnaround situations and loss situations that we take a comprehensive approach to the investments and add more value with board advice as well as frequent input to management. It was also important to be able to change the management team to help the venture achieve its goals where management clearly was not performing. We also learned that certain public sector tools allow for financing at below-market rates while allowing the fund to earn an additional returns

- ? What Fund*
- ? What tools*
- ? Applicability to SBIC program*

*Why? -  
2003 Applicant  
we exp to  
provide  
hands-on  
guidance*

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