



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
DEPARTMENT OF ADMINISTRATION

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September 26, 2013

Clifton G. Kellogg, Program Director  
U. S. Department of Treasury  
State Small Business Credit Initiative  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

Dear Mr. Kellogg:

Per our conversation, please find attached the Department of Administration's written response to the concerns raised in the Lyon Park Associates assessment of Rhode Island SSBCI Program.

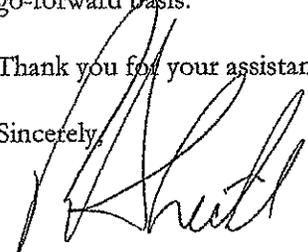
As can be seen, we believe that Lyon Park misconstrues the language of our application and the program implemented by BetaSpring. We ask that in reviewing our response that Treasury keep an open mind on this accelerator program which we envision as being highly successful in promoting growth companies. We remain confident that if you deploy Cromwell Schmisser to review the program that the program will be found to be in compliance with our application and Treasury's rules/regulations.

We also believe that we can address the concerns regarding the Slater program as discussed in the attachment once we receive Treasury's guidance.

I want to emphasize how important the SSBCI program is to the State of Rhode Island. We believe that our adoption of a comprehensive checklist will facilitate the effectiveness of the program on a go-forward basis.

Thank you for your assistance.

Sincerely,

  
Richard A. Licht, Director  
Department of Administration

cc: Marcel Valois, Executive Director, RI Economic Development Corporation  
Christine Hunsinger, Director of Communications, Office of the Governor  
Phyllis Love, Relationship Manager, State Small Business Credit Initiative  
John Pagliarini, Chief of Staff, RI Economic Development Corporation  
Frederick W. Stolle, Esq., Assistant Director, Department of Administration  
Bernard Lane, Jr., Associate Director of Financial Management, Department of Administration

## I. STARTUP INVESTMENTS/BETASPRING FUND 100

1. Response to Lyon Park's concern that **Startup Investments/Betaspring Fund 100** may not be implementing the program in accordance with Rhode Island's approved SSBCI application

The Rhode Island SSBCI application Section 4A states in pertinent part as follows:

*The RIEDC intends to utilize SSBCI funds to invest \$2 million in Betaspring Fund 100, LLC (the "Fund"), which is part of a family of entities engaged in operating the Betaspring Accelerator (Betaspring LLC) program and investing in its participating companies. All SSBCI funds invested by Betaspring will be used for equity investment. All funds will represent a cash investment in the portfolio companies and will be shown as paid-in capital to the companies' balance sheets. This approach is in-line with the approved IRS treatment for Betaspring Fund 100 investors.*

*The Fund makes equity investments in concert with intense mentorship. The Fund will:*

- *Target an average borrower-size of 500 employees or less and will not extend credit support to borrowers with more than 750 employees*
- *Target investments with an average principal amount of \$5 million or less and will not extend credit with principal amounts in excess of \$20 million.*
- *Make direct SSBCI investments in portfolio companies of about \$20,000 cash to fund company growth:*
  - *Total investments averaging \$42,500 in SSBCI and private seed capital in each company;*
  - *Obtaining and utilizing an additional \$8,000 to \$33,000 each in sponsorship services;*
  - *Acquire ownership interests in the form of common stock in these graduating companies.*

*The Accelerator Program provides support in the form of space, intensive mentorship, coaching, networking support, and seed investment in participating companies.*

*Competitive entrepreneurial teams from around the world come to Providence, RI for the Betaspring intensive twelve week program. The Program conducts a rigorous selection process, entailing a competitive application procedure in which applicants provide information about themselves, their idea, and their team. Management evaluates the applications, selecting a subset to interview via video or in-person. Based on these interviews, management selects finalist and sends acceptance letters. Approximately 10% of the applicants were selected for participation in the 2010 Accelerator program.*

*Betaspring's training helps teams transform themselves into functional, fundable companies by providing mentorship, Kickoof funding, and immersion in an intense*

*startup community of like-minded entrepreneurs. Via the Fund, Betaspring provides each team with approximately \$42,500 in seed capital. Part of this funding will help pay for services including mentorship, legal counsel, incorporation filing and other legal work necessary to complete the business model.*

The Lyon Park report summarizes the foregoing portion of the application in the following manner:

In the portion of the approved application that described Betaspring Fund 100, Rhode Island stated that “all SSBCI funds invested by Betaspring will be used for equity investment. All funds will represent a cash investment in the portfolio companies and will be shown as paid-in capital to the companies’ balance sheets.” The application also states that the fund will “make direct SSBCI investments in portfolio companies of about \$20,000 cash to fund company growth; [and] obtaining [sic] and utilizing [sic] an additional \$8,000 to \$33,000 each in sponsorship services . . .” While the application makes clear that investees will be graduates of Betaspring’s affiliated accelerator, the application does not suggest that any funds will be used to fund the Betaspring Fund 100’s operating expenses. The application does indicate that a portion of the \$42,500 in seed capital “will be used to help pay for services including mentorship, legal counsel, incorporation filing, and other legal work necessary to complete the business model,” but it does not specify which entities will provide these services to the investees.

Simply put, Lyon Park’s review of our Program mischaracterizes the actual description provided in the application. The description provides an overview of the entire accelerator model adopted by Betaspring LLC rather than simply the operation of Betaspring Fund 100. While Lyon Park acknowledges that the application makes clear that investees will be participants in the accelerator run by an affiliated company (Betaspring, LLC), Lyon Park goes on to attempt to put a negative spin on the content of the application by stating that nowhere does it suggest that any funds will be used to fund Betaspring Fund 100’s operating expenses. Not surprisingly, the application does not refer to the use of funds to pay for the operating expenses of Betaspring Fund 100 as it was never the intention of the Fund to use any SSBCI funds to pay for operational expenses and, in fact, no SSBCI funds were used to pay any Betaspring Fund 100 operating expenses. This fundamental misunderstanding of the nature of the Betaspring accelerator program by Lyon Park, serves to highlight the importance of having personnel with substantial expertise in venture capital accelerator programs as a necessary component in any undertaking to a review of compliance issues of such a critical nature. Lyon Park fails to understand the essential nature of the Bestaspring Fund 100’s Program in conformance with the application; Lyon Park is wrong.

As is evident, Lyon Park’s entire analysis starts off on the misplaced assumption that Betaspring Fund 100 used SSBCI funds for “operating expenses” of the Fund. Lyon Park then goes on to provide an analysis based upon this false assumption and places great emphasis on the terminology “cash investment” while at the same time attempting to downplay the clear

disclosure that a portion of each investment in a portfolio company would pay for "services" provided.

In actuality, the application does provide a clear and concise description of the Betaspring accelerator program. The opening paragraph indicates that SSBCI funds will be used for equity investments. The application then states that "[a]ll funds will represent a cash investment in the portfolio companies and will be shown as paid-in capital to the companies' balance sheets." The application goes on to disclose that "via the Fund, Betaspring provides each team with approximately \$42,500 in seed capital. Part of this funding will help pay for services including mentorship, legal counsel, incorporation filing and other legal work necessary to complete the business model." By use of the word "including" it is obvious that the application intended to provide some examples but not a complete list of some of the services that would be funded with the investments from the Fund. Furthermore, the opening paragraph indicates that all funds (not just SSBC funds) "will represent cash investments" and "will be shown as paid-in capital."

These descriptive statements do not support the conclusion made by Lyon Park that the application required all SSBCI funds to be paid in cash directly to the portfolio company in which an investment is being made. Rather, a more appropriate interpretation is that in using the term "cash investments" in tandem with the statement "will be shown as paid-in capital," the application intended to convey that funding would represent an equity investment in each portfolio company. If the intention were to pay the entire investment directly to the investee there would be no need to further state that the payment would "be shown as paid-in capital." This interpretation avoids the conclusion that Lyon Park makes that the approved application is contradictory thereby making it internally inconsistent at the time of Treasury's review and consideration. Furthermore, Lyon Park avoids any mention of the statement on page 1 in section 4H in which the application indicates that "[s]ince it is a fund with an operating agreement with investors, these documents spell out the use of investment proceeds that must be directed to investment in Betaspring teams and to the provision of services that are offered to them." This statement is directly counter to the conclusion reached by Lyon Park that the application was entirely silent as to the payment of investment proceeds directly for "the provision of services" offered to Betaspring teams. Contrary to Lyon Park's determination, the application is internally consistent provided one does not attempt to take sentences or phrases out of context and considers the application as a whole.

Missing from the analysis undertaken by Lyon Park is any focus on the substance of the transaction at issue in the Betaspring accelerator model. In essence the Betaspring Fund 100 makes payment to the service provider (Betaspring, LLC) on behalf of the portfolio company and in return receives an equity stake in the portfolio company. Certainly, payment to a separate and distinct entity by Betaspring Fund 100 on behalf of a portfolio company that is reflected as paid-in capital is only different in form and not substance over the payment to the portfolio company with a requirement to pay the funds over to this separate entity as a condition to participation in the accelerator program. The substance of these transactions is the same;

however, Lyon Park's entire analysis on this issue elevates the form over the substance when it notes that there was no indication "that the funds to pay for these services would never actually pass through the investee." In fact, in discussions with Lyon Park its representative conceded as much by indicating that had the monies flowed through each investee there would have been no issue to question.

Lyon Park then attempts to equate the payments made in connection with the "services" disclosed in the application as administrative costs of Betaspring Fund 100. The predominant flaw in this part of Lyon Park's assessment is that Betaspring Fund 100 never received any payments for operating expenses or any other purpose, rather it is the investment vehicle that pays funds over for the benefit of each portfolio company and it is the payment of funds that constitutes the investment in each company, which is reflected as paid-in capital. In actuality, the mechanism is very straightforward; the Betaspring Fund 100 pays another entity for a services contract and the services contract is assigned to the investee. Nothing about this structure could be defined as an in-kind contribution in the manner alluded to by Lyon Park. An in-kind contribution by its very nature would have no monetary component rather it would simply be services provided in exchange for equity. If this were an in-kind structure, Betaspring Fund 100 would not be the recipient of the equity in the portfolio company rather the entity actually providing the services would receive the equity stake. Because Betaspring Fund 100 did not receive the funds as characterized on page 9 of the Lyon Park report, the allegations and conclusions are based entirely on a misconception of the operation of the Betaspring accelerator model and lack any merit requiring further comment.

Lyon Park's analysis negates the application language describing the Program. Frankly, the analysis is fundamentally flawed.

2. Response to Lyon Park's contention that Startup Investments/Betaspring Fund 100 may not be in compliance with Treasury's **requirements** regarding 20 percent private capital at risk and 1:1 private leverage.

The Rhode Island application states as follows with respect to private leverage and capital at risk:

*Betaspring has completed 3 investment rounds: one "service for equity" round, and two funded by private investors, supplemented by some public funds. With measurable achievement in launching surviving businesses, Betaspring is scaling up to expand operations, obtaining \$4.25 million in equity investment, to which RI will contribute \$2 million, as indicated in Section 2C.*

*\*\*Betaspring recognizes that the investment of SSBCI funds requires a 1:1 co-investment match from private funding sources at a minimum. Betaspring can and will comply with this requirement, by only making investments that meet the 1:1 match requirement.*

*Betaspring will achieve this by drawing SSBCI only up to the amount of current private investment in the fund. Furthermore, Betaspring recognizes that private funding sources must have 20% or more of their capital at risk in each deal. By meeting the 1:1 match requirement and maintaining proportional (dollar for dollar) risk allocation, Betaspring investments are assured to exceed the requirement of 20% private capital at risk on a per-deal basis\*\**

In addition to the foregoing, Treasury requested some additional explanation relative to the Betaspring program, which was supplied in the form of a letter that stated as follows:

*Betaspring has raised \$750,000 in committed private capital to date, which provided the initial close of the fund. We have an additional \$300K-\$500K from private investors identified, which we will close on an investor-by-investor basis. The fund is projected to close at the end of 1Q 2012. Our private investor pipeline is deep and well engaged in the progress of the program.*

*Capital calls for Betaspring are scheduled for June 2011 (completed), November 2011, and November 2012. Investors who commit post- the initial capital call are required to "catch up" to previous capital calls when they commit to fund.*

*Betaspring understands the private capital matching requirements for tranching of the SSBCI capital, and projects that we will be able to meet these on a per-deal and overall fund basis, as the makeup of our \$4.25M fund is 53% private (\$2.25M) and 47% public (\$2M SSBCI). Every deal is invested along these proportional allocations, exceeding the requirements of 20% private capital on a per-deal basis.*

Lyon Park states that the approved application "acknowledged Treasury's requirements regarding private capital at risk and 1:1 private program leverage and indicated that Betaspring would fully comply with these requirements. The application did not, however, clarify how Betaspring would demonstrate compliance with these requirements."

Lyon Park then proceeds to undertake a detailed analysis and methodology in attempting to reconcile the use of SSBCI funds and private co-investment in a manner that is consistent with its view of the treatment of loan transactions. However, the Rhode Island application and correspondence submitted in connection therewith make clear how the Betaspring program intended to meet the 1:1 leverage and 20% private capital at risk requirements in connection with its venture capital accelerator program.

The statement made by Lyon Park relative to the lack of information on how the Betaspring Fund 100 was going to show compliance is inaccurate. Importantly, the Lyon Park report does

not touch on any of the discussions with Treasury during the application process. Furthermore, the report also fails to make mention of correspondence requested by Treasury that was supplied by Betaspring providing additional explanation of how the Fund intended to comply with these requirements.

The application specifically states that "Betaspring will achieve this by drawing SSBCI **only up to the amount of current private investment in the fund.** Furthermore, Betaspring recognizes that private funding sources must have 20% or more of their capital at risk in each deal. By meeting the 1:1 match requirement and **maintaining proportional** (dollar for dollar) risk allocation, Betaspring investments are assured to exceed the requirement of 20% private capital at risk on a per-deal basis." (emphasis added) This description was supplemented by the correspondence in which Betaspring indicated that they understand "the private capital matching requirements for tranching of the SSBCI capital, and projects that we will be able to meet these on a per-deal and overall fund basis, as the makeup of our \$4.25M fund is 53% private (\$2.25M) and 47% public (\$2M SSBCI). **Every deal is invested along these proportional allocations,** exceeding the requirements of 20% private capital on a per-deal basis." (emphasis added).

Both the application and correspondence provided to Treasury detail the fact that Betaspring Fund would be comprised of approximately \$4.25 million total dollars of which \$2.25 million was to be private investment and \$2 million of SSBCI funds. Together the application and this correspondence make clear that the Betaspring Fund had already received private investment of \$750,000, which comprised a portion of the total \$4.25 million fund. Adopting the rationale of Lyon Park's assessment would have resulted in a denial of the Rhode Island application from its inception as without the \$750,000 as a component of the leverage requirement, there could not be a 1:1 leverage unless follow on investment is taken into account. Thus, the only plausible manner in which Betaspring could meet the 1:1 leverage requirement at the time of the application (without counting follow-on investment) is a recognition that investments were allocated on **a proportional basis** such that each dollar of investment results in an equity across the entire portfolio of companies rather than select companies in the portfolio. This is in fact how the application and correspondence provided to Treasury detailed **how** the Betaspring Fund 100 intended to meet the Treasury guidelines. A more appropriate analysis of the Fund is to examine the entirety of its investment activity on a rolling basis from inception to the date of measurement, to determine compliance with private capital at risk and the leverage requirements. Adopting this method of analysis is in keeping with the content of the Rhode Island application and based upon such analysis, Betaspring Fund 100 does meet the private capital at risk and leverage requirements. Such an analysis is central to an accelerator program. Again, Lyon Park's analysis reveals a failure to understand the application.

For every portfolio company in which the Fund invested, the capital at risk is allocated proportionally across all investors in the Fund. If a portfolio company investment results in a loss, that loss is born by all investors in proportion to their ownership interest in the Fund. Since its inception the Fund has maintained a private capital ratio in excess of 20% and therefore private capital at risk in each investment exceeds 20%.

The Allocation Agreement provides the following formula to determine whether a state program is in compliance with the 1:1 leverage ratio:

$$\text{Cumulative Private Leverage Ratio for Individual Approved State OCSP Program} = \frac{[\text{Total Cumulative Private Financing Generated by the Approved State OCSP Program}]}{[\text{SSBCI Funds used by the Individual Approved State OCSP Program}]}$$

In analyzing the Betaspring Fund 100 investments this formula should be stated as follows:

$$\frac{[\text{All private investment dollars raised by Betaspring Fund 100} + \text{all private investment dollars raised by portfolio companies subsequent to the Betaspring Fund 100 equity investment}]}{[\text{SSBCI funds used by Betaspring Fund 100}]}$$

Using the appropriate formula to measure the 1:1 leverage ratio as set forth above, Betaspring Fund 100 indicates that it can show compliance with this requirement.

In addition to the foregoing analysis, Lyon Park's assessment undertakes an examination of the private investment and leverage issues by stating that "[a]lthough Startup Investments did their accounting in such a way as to 'fund' a large share of their operating expenses out of SSBCI funds, Lyon Park Associates considered each expenditure to represent a reduction in private funds availability, since Lyon Park Associates, believe these expenses should have been paid for out of private funds." This statement again reveals the Lyon Park's fundamental lack of understanding in relation to the Betaspring accelerator. Startup Investments never funded any of its operating expenses as alleged by Lyon Park. As detailed above, Betaspring Fund 100 made an equity investment in each portfolio company and the proceeds of that investment were used to purchase a services contract that was assigned to the portfolio company. Neither Startup Investments nor Betaspring Fund 100 used any SSBCI funds for "operating expenses" as asserted by Lyon Park.

3. Response to Lyon Park's assertion that **Startup Investments/Betaspring Fund 100** did not complete the required use of proceeds form.

Lyon Park determined that the program lacked investor use of proceeds forms as the wrong form had been used (i.e. the investee use of proceeds certification in place of the investor use of proceeds). Lyon Park noted that the issue was corrected.

4. Response to Lyon Park's determination that **Startup Investments/Betaspring Fund 100** failed to provide adequate documentation of subsequent financing.

Startup Investments does not dispute the determination relative to the lack of complete documentation of subsequent financing. As previously reported to Treasury, the documentation is being requested and compiled and is expected to be completed before year end.

5. Response to Lyon Park's claim that **Startup Investments/Betaspring Fund 100** invested in companies that were not located in the State of Rhode Island.

Lyon Park notes that at the time the investment decision was made certain companies were not located in the State of Rhode Island. Lyon Park fails to make any reference to the Rhode Island application in this context, which clearly stated that "competitive entrepreneurial teams from around the world come to RI for the Betaspring intensive twelve week program". By the very nature of an accelerator, one should expect that participants may come from other states or countries. Certainly, there is no dispute that SSBCI funding should be limited to U.S. companies and with respect to the single company that did not complete its transition to a U.S. corporate entity it is agreed that the investment must be un-enrolled from the program. With respect to any other U.S. company participating in the Betaspring accelerator, each is located within Rhode Island during the twelve week term of their participation in the program. While the goal is to retain as many companies locally, in some instances this may not happen. Given that the application was clear on this point and that all companies are located in Rhode Island while participating in the accelerator there does not appear to be any basis for Lyon Park's determination that this issue merits discussion other than the one company of non-U.S. origin.

Lyon Park does not point to any rule, regulation, statute or guideline that would prohibit an investment decision from being made in relation to a company located in another state.

**Requested Guidance:**

Given the content of the Lyon Park report, Treasury is requested to opine on its interpretation of the Rhode Island application taking into account the detailed analysis provided by the State rebutting the mischaracterizations contained in the Lyon Park report. To the extent Treasury adopts the Lyon Park interpretation and determines that the State is not in compliance with its application, the State hereby requests that it be permitted to amend its application retroactively to more definitively state the mechanics of the Betaspring accelerator program.

A review of Treasury guidelines does not reveal any prohibition in relation to the investment mechanism whereby a venture capital fund pays directly on behalf of an investee for goods and/or services, which would otherwise be permissible for the investee to purchase with SSBCI funds had the funding been made directly to the investee. Given the emphasis placed on this scenario by Lyon Park, guidance is requested from Treasury to indicate whether it is permissible for payments to be made by an investment fund to another entity on behalf of its investee so long as the goods and/or services are permissible expenditures and the investment results in equity stake in the investee equivalent to the funds paid by the investment fund.

Additionally, Treasury is requested to provide guidance in connection with the structure of the Betaspring Fund 100 investment vehicle as set forth above and determine whether the proportional allocation adopted by this fund is permissible in calculating the 20% capital at risk, recognizing that certain private investment to the Fund was expended subsequent to the Allocation Agreement but prior to the receipt of the SSBCI allocation.

## **II. SLATER TECHNOLOGY FUND**

As of January 2013, Slater Technology Fund ("Slater") adopted policies and procedures that more strictly segregate SSBCI funds from funds in other Slater accounts so as to avoid any further issues such as those identified by Lyon Park. Detailed accounting reconciliations were developed to carefully track the transactions and transfers that would be required to strictly comply with SSBCI regulations, pending review with RIEDC, its advisors and/or US Treasury personnel, as the case may be. As of July 12, 2013, actual transfers of cash in settlement of the accounting reconciliations were made.

Lyon Park's findings in relation to Slater fall into several categories, which are as follows:

- satisfaction of the 20% private capital at-risk requirements of SSBCI;
- issue of whether financings with multiple closings can be viewed as integrated transactions;
- concern that Slater improperly used SSBCI funds to make two investments that were not enrolled in the SSBCI program
- need for investor sex offender certification letters on individual transactions.

Lyon Park cites the VCharge transaction as the first example of non-compliance with the 20% test. Non-compliance in this case turns on the rejection of Slater's explanation that the VCharge investment was part of an 'integrated transaction'. Slater would propose to remedy the VCharge matter by proactively un-enrolling VCharge.

Lyon Park also identifies the Lucidux and VoltServer transactions as the second and third examples of non-compliance with the 20% test. In each case, Slater served as sole investor intending to comply with the 20% test by posting capital from its own account. The funding source for these transactions was intended to be Slater's recovery account, which is specifically identified as a source of funding in the approved Rhode Island application. The funds in the recovery account are income earned by Slater on its investments. Slater is not a governmental agency or quasi-governmental corporation but a private corporate entity organized under the laws of Rhode Island in the same manner as any other private corporation. The monies in Slater's recovery account are not paid by any public entity. Notwithstanding the foregoing, Slater has requested an opinion from counsel that the funds in its recovery account constitute private capital

As a result of Lyon Park's recommendations, Slater has undertaken the following reconciliations:

In the case of Lucidux, this posting took place retroactively (effective July 12, 2013), once Slater had received adequate guidance on how compliance with the 20% test was to be construed according to Lyon Park. Slater had generated accounting reconciliations along these lines as part of the engagement with Lyon Park and had further clarified its understanding of the 20% test by attending the June 2013 Contractors' Workshop.

In the case of VoltServer, this posting also took place retroactively (effective October 31, 2012), albeit in excess of the 20% requirement, by way of Slater funding the second tranche in its VoltServer investment out of Slater capital accounts. When Slater later effected its accounting reconciliations and related funds transfers, it transferred \$70,000 from its SSBCI account to Slater's capital accounts to reimburse Slater and bring Slater's private capital portion to 32%. Of note, Slater stopped short of transferring an amount sufficient to bring its private capital portion down to 20% because Slater had reached with the transfer of \$70,000 the limit of \$1.5 mm received under its SSBCI funding through October 31, 2012 (assuming as was the case at the time that ProThera Biologics, which closed on August 28, 2012, would be enrolled in Slater's SSBCI Program to the extent of \$200,000, or 80% of Slater's \$250,000 investment in Prothera).

As noted by Lyon Park, Slater did in fact use SSBCI funds to fund its investment in ProThera Biologics, completed August 28, 2012, intending to post \$50,000 from its own capital to meet the 20% test in a manner similar to the treatment it adopted with Lucidux, that is to say retroactively pending further clarification on what criteria might satisfy the 20% test. In the ProThera case, Slater had invested \$250,000 in ProThera in 2009 and there was initially a question whether such prior investment out of Slater's own account would satisfy the 20% test.

Slater closed the IlluminOss Medical transaction in amount of \$250,000 on September 26, 2012. Having expended substantially all of its SSBCI funds with the ProThera transaction, Slater funded the IlluminOss transaction out of its own capital. Later in time, Slater determined that the IlluminOss transaction served better to embody the criteria required or desired by SSBCI, including substantial co-investment by third party private investors and significant potential for follow-on leverage from the syndicate of investors leading the deal. Given this judgment, Slater elected to enroll the IlluminOss investment in its SSBCI Program in lieu of the ProThera investment. Slater reflected this treatment in its accounting reconciliations, and it later did the same in its funds transfers of July 12, 2013. Consistent with this treatment, Slater included IlluminOss as one of its enrolled transactions in the annual report filed for December 31, 2012, recognizing that the investment was in identical amount as that of the previously-funded ProThera transaction.

Slater also did in fact use SSBCI funds to fund its initial investment in Enhanced Energy Group, completed November 16, 2012. Soon thereafter, Slater was informed that it would not be receiving the \$900,000 of additional SSBCI funding it had expected. Anticipating additional follow-on investment in Enhanced Energy within a short time, and uncertain whether there would be adequate SSBCI capital available to fund such follow-on investment, Slater elected to

refrain from enrolling investment in Enhanced Energy. Accordingly, Slater reimbursed its SSBCI account out of its own capital, as evidenced in both the accounting reconciliations as well as the funds transfers effected on July 12, 2013.

Lyon Park's findings also identified deficiencies in Slater's inventory of sex offender certifications, specifically those required of Slater with respect to each individual investment. Slater has subsequently remedied this issue, as noted by Lyon.

Slater is in the process of developing a compliance checklist in concert with the Small Business Loan Fund Corporation consistent with the recommendation of Lyon Park. Additionally, the SBLFC intends to implement a procedure by which no expenditure of SSBCI funds can be undertaken by Slater without provision of the completed checklist and accompanying records to the SBLFC evidencing compliance with Treasury requirements.

**Requested Guidance:**

Treasury has been provided with an explanation of the private capital at risk issues by way of the Lyon Park report and a detailed explanation above as to the reconciliations undertaken by Slater. Confirmation is requested that the reconciliations meet with Treasury's acceptance to remediate the issues identified by Lyon Park.

Permission to un-enroll the V-Charge investment is requested and in connection therewith, Slater would also seek to 're-enroll' ProThera in accord with what was originally intended with respect to the ProThera investment. Given that Slater was sole investor in ProThera, Slater would propose to post \$50,000 of the \$250,000 investment in ProThera out of its own capital in compliance with the 20% test. Slater believes the ProThera transaction is arguably a better candidate than VCharge for enrollment in Slater's SSBCI Program.

**III. Checklists:**

In an effort to improve upon its compliance with the SSBCI Rules and Regulations, Rhode Island is developing checklists as recommended by Treasury at the SSBCI conference held in Dallas in June 2013. These Checklists are being adapted from those utilized by the state of Alabama which have been held up as a model by Treasury officials.