Appendix E – Qualified Venture Firm & Business Annual Reporting & Requirements

Qualified Venture Firm Annual Certification Test

Once per year, NJEDA staff will test qualified venture firms for continued certification. Section 25.8 of the NJIEF rules describes the requirements to be tested, which require qualified venture firms to:

- Maintain at least two full-time employees with the authority to direct investment capital with at least five years of professional money management experience;
- Maintain at least $10,000,000 in assets under management at the time of application, which will be measured as the sum of a firm's net assets of the funds managed by the qualified venture firm, equity capitalization of the funds managed by the qualified venture firm, and written commitments of cash or cash equivalents;
- Maintain a valid New Jersey tax clearance certificate and New Jersey business registration;
- Have searched for investment opportunities in the state;
- Remain in compliance with the requirements of any agreement, whether related to the Program or otherwise; with the Authority.

Additionally, firms that met the requirements for certain prospective criteria under the NJIEF weighted scoring criteria during initial certification will be retested for continued adherence to those criteria requirements. Any firm that falls below the minimum acceptable score will be decertified. The following criteria from the qualified venture firm weighted criteria will be retested annually for adherence:

- Does the firm have a clearly articulated internal policy promoting diversity, equity, and inclusion within the venture firm/management company, specifying relevant evaluation metrics when applicable?
- Does the firm have a clearly articulated investment policy promoting diversity, equity, and inclusion at portfolio companies, specifying relevant evaluation metrics when applicable?
- Does the firm have a demonstrable track record of making progress against its diversity, equity, and inclusion policy goals?
- If not, does the firm have a demonstrable track record of making best efforts towards achieving its diversity, equity, and inclusion policy goals?
- Does the firm's senior management team agree to create a policy certifying that the firm will dedicate a greater portion of Evergreen funding into businesses located in New Jersey incentive areas?
- If an annual report submitted by a qualified venture firm fails to demonstrate the firm has maintained a clearly articulated diversity, equity, and inclusion policy and made best efforts to

comply with the diversity, equity and inclusion or incentive area investment policy described in their application for certification as a qualified venture firm, the Authority shall reduce the firm's evaluation score by the weights associated with such criteria 1 and 2 in Table 3 of Appendix C. If the reduction in score brings the firm below the minimum acceptable score, they will be decertified. Given the strong weight associated with diversity, equity, and inclusion policies, any firm that fails to demonstrate it has made best efforts to comply with its diversity, equity, and inclusion policy over the prior year will be decertified as a qualified venture firm under the Program.

Annual Report Requirements

Each year, a qualified venture firm must prepare an annual report for the program within 120 days of the qualified venture firm's tax year end. The requirements of the report are detailed in Section 25.9 of the program rules and include:

- Any updates to firms' diversity equity and inclusion policy and evidence demonstrating firms' best efforts towards achieving its diversity equity and inclusion policy goals;
- Demonstrable best efforts towards achieving a New Jersey incentive area policy, if applicable;
- Supporting evidence to demonstrate venture firms continued adherence with the prospective criteria under the NJIEF weighted scoring criteria noted above, and;
- Documentation supporting continued adherence to program requirements, such as the requirement to maintain $10,000,000 in net assets, equity capitalization, and written commitments of cash or cash equivalents, and to maintain at least two professional investors with at least five years of money management experience;
- A valid tax clearance certificate and New Jersey business registration;
- The amount of the qualified investment, if any, uninvested at the end of the preceding calendar year;
- A list of all qualified investments made during the preceding calendar year;
- The number and wages of full-time employees of each qualified business at the time the venture firm made the qualified investment and as of December 31 of that year and information relating to full-time employees located in New Jersey;
- A copy of lease agreement(s) to demonstrate a New Jersey place of business of qualified businesses that receive NJIEF investment capital from the firm;
- For any qualified investment in which the qualified venture firm no longer has a position as of the end of the calendar year, the number of full-time employees of the business as of the date the investment was terminated and information relating to full-time employees located in New Jersey;

- Financials, audited by a certified public accountant of the qualified venture firm's fund co-investing alongside the NJIEF and the Evergreen special purpose vehicle that include a consolidated summary of the performance;
- A certification as to a qualified venture firm's reserve policy as it relates to each qualified investment;
- Updated management fee schedule as it relates to each qualified investment;
- Any other information the Authority requires to ascertain the impact of the program on the economy of the State.

Absent extenuating circumstances or prior written consent by the Authority, if a qualified venture firm fails to comply with its annual reporting requirements, the Authority shall withhold the management fees and direct expenses due. If the qualified venture firm submits the complete annual report within 120 days from the date the annual report was due, the Authority shall pay the management fees and direct expenses withheld and resume payment of management fees and direct expenses. If the qualified venture firm fails to comply with the reporting requirements after the additional 120 days, the qualified venture firm shall forfeit all management fees and direct expenses due for a period of a year.

If a qualified venture firm is not in compliance with its reporting requirements at the time that any distribution is made by a qualified business to the Evergreen special purpose vehicle holding a qualified investment, no distribution of cash or equity for carried interest shall be made to the qualified venture firm, provided that if the qualified venture firm comes into compliance with such reporting requirement within 120 days of the date of such distribution, the Evergreen special purpose vehicle shall make the distribution for carried interest to the qualified venture firm.

Finally, if a qualified venture firm fails to timely submit the completed annual report for two consecutive years, the Authority shall decertify the qualified venture firm and may remove the qualified venture firm from the Evergreen special purpose vehicle or require the qualified venture firm to terminate the Evergreen special purpose vehicle.

Other Compliance Requirements

If a qualified venture firm fails to comply with the requirements of the qualified venture firm agreement or Evergreen special purpose vehicle governing agreement other than the failure to submit a complete annual report, or if the qualified venture firm or affiliate of the qualified venture firm is removed from the qualified venture firm active fund, the Authority may withhold or cease paying management fees and direct expenses, decertify the qualified venture firm, remove the qualified venture firm from the Evergreen special purpose vehicle, or require the qualified venture firm to terminate the Evergreen special purpose vehicle.

Additionally, if, at any time, the Authority determines that a qualified venture firm made a material misrepresentation on the qualified venture firm's application for certification, application for a qualified investment, annual report, or any submissions to the Authority under this program, the Authority shall cease paying management fees and direct expenses. The Authority shall decertify the qualified venture firm and may demand repayment of all management fees and direct expenses previously paid, remove the qualified venture firm from the Evergreen special purpose vehicle, or require the qualified venture firm to terminate the Evergreen special purpose vehicle. The actions by the Authority pursuant to this subsection shall be in addition to any other remedies in the qualified venture firm agreement or the Evergreen special purpose vehicle governing agreement and any criminal or civil penalties to which the qualified venture firm and the respective officer may be subject.

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[i] Deloitte VC Human Capital Survey. Third Edition. Deloitte, Venture Forward, and NVCA, 2021. https://www2.deloitte.com/us/en/pages/audit/articles/diversity-venture-capital-human-capital-survey.html.

[ii] Ibid.

[iii] Preqin Special Report: Private Capital Fund Terms. Preqin, October 2017.

[iv] Ibid.

[v] VC Valuations 3Q 2021. Pitchbook. 2021.

[vi] Salijoughian, Parsa. "How Fast Should You Be Growing." TechCrunch. August 24, 2013. https://techcrunch.com/2013/08/24/how-fast-should-you-be-growing/