MEMORANDUM

DATE: November 2, 2007

RE: Summary of the October 30, 2007 Meeting of the Emerging Domestic Market Advisory Group

The second meeting of the Emerging Domestic Market Advisory Group (Advisory Group) was convened by teleconference on October 30, 2007. Over 20 investment and community development professionals participated in the call. General information on the work of the Advisory Group, including a list of members, can be found on the website for the Assembly Committee on Jobs, Economic Development and the Economy at www.assembly.ca.gov

Below is a summary of the Advisory Group's three priority areas, a schedule of next steps, and a summary of discussion points from the meeting.

Key Outcome

The key outcome from the meeting was the approval of the EDM Advisory Group's first two projects:

- The Directory of Capital for California Small and Medium Size Businesses, and
- The development of a Hybrid EDM Investment Model

The Advisory Group spent a majority of its time providing guidance on the development of the two projects. The proposals will be updated and posted prior to the next meeting. Specific comments are detailed below.

Comments upon the Directory of Capital for California Business

- Group supports the development of a framework for an EDM website that connects and explains the different types of capital available for business development.
- Biggest problem for entrepreneurs is understanding the difference between debt and equity
- Website should include video or podcast outlets
- Investment criteria should be clearly outlined on the website
- The SBA website has much of the content we need
- Need clarity of investment terms, i.e. what is venture v. early stage?
- The website must help entrepreneurs determine if they are ready for private equity investment. For those that private equity isn't appropriate, the website should offer other capital resources.
- The website should address both early stage and mature companies. This effort should fuel a 'pipeline' of EDM deals.

Basic Early Stage Investment Criteria
1. Management team
2. Exit Strategy
3. Intellectual Property
4. Return of 10x in five to seven years
5. Strength of business model

Basic Investment Criteria for Mature Companies

1. Management Team
2. Maturity of the business model
3. Expectations for growth expansion: at least 2x ROI up to 5X ROI in 2 to five years.
4. Scalability
5. Exit strategy
6. The above are stratified by market, industry, maturity of the business, and key issues like ratio analysis and cash flow. Late stage deals vary by industry widely.

Two other issues:

- Willingness of entrepreneurs to give up control
- Venture capital usually refers to technology deal at the early stage

Comments upon the Hybrid EDM Investment Model

- Group supports the proposed development process for developing a hybrid EMD investment model.

- Expand the Assessment and Evaluation phase to include an identification and evaluation of public resources.

Issues to Follow-Up

- The National Association of Investment Companies is sponsoring research on valuation and investment returns. The Advisory Group should get more information and support where appropriate.

- Goldman Sachs has released it's update report on the Hispanicization of America.

- The Center for the Development of Social Finance is completing a technical study on microenterprise activities in Denver. This may be useful model for Hybrid Investment Model.

- The New America Alliance is hosting a meeting in Halfmoon Bay in August 2008.

- National EIC has already funded research on the noncorrelation of an EDM sub-asset class.