

## **NJ CoVest Fund**

### **Frequently Asked Questions**

#### Matching Investment

- 1) Q) My Company's investment round has been open for approximately six months. We've had multiple investor closings during this time until the round was fully subscribed. Can all the investments made in this round qualify as a matching investment for the NJ CoVest Fund?  
A) Maybe. The NJ CoVest Fund will only match fresh capital received by the company. To be eligible, the investment funds must be received by the Company within 90 days prior to submitting an application to the NJ CoVest Fund. Investor capital received by the Company more than 90 days before submitting an application to the NJEDA would not qualify to be matched by the NJ CoVest note, even if these funds were closed under the same terms or round as funds received in the last 90 days.
- 2) Q) If my investment round is received in tranches or distributed on a milestone basis, how much is eligible to be matched by the NJ CoVest Fund?  
A) The NJ CoVest Fund can only consider funds closed and received by the applicant company from their investors within 90 days from submitting their NJ CoVest application.
- 3) Q) If the investor match is funded in tranches over time, does this affect how the EDA funds be disbursed?  
A) No, EDA funds would match the first tranche (funded within 90 days of CoVest Application) with the full approved amount of the note disbursed at closing.
- 4) Q) Does the match funding have to be committed prior to submitting the online application?  
A) Yes. The match funding must be secured before applying. For a commitment to be valid, there must be a signed investment document and/or cash in the NJ technology company's bank account. A signed term sheet is not an acceptable stage to start the online application due to its non-binding nature.
- 5) Q) Is there a minimum capital contribution required by the Founders?  
A) There is no specified amount of investment required by the Founders / Management Team, however, this will factor in the NJ CoVest underwriting process that will affect the EDA's investment decision.

#### Company Operations

- 1) Q) Can the company be virtual prior to the funding and open an office conditioned upon approval?  
A) Yes, the Company can operate virtually at the time of application, but must have an office as a condition of closing. The office lease must be signed prior to any documentation and funding from NJ CoVest.
- 2) Q) My company operates in multiple locations today. Is there a minimum number of NJ-based employees required to qualify?  
A) The Company must employ at least 75% of its total full-time employees in NJ at the time of investment and project to continue to maintain 75% of the employees in NJ.
- 3) Q) We have more than three referenceable customers, but they are in Beta testing right now. Does my company qualify for NJ CoVest?  
A) It may. The program requires a company demonstrate it is generating revenue from three customers, at minimum. Additionally, at least three of its customers must be willing to provide a reference for the

company. However, the company's customers base will factor in the NJ CoVest underwriting process that will affect the EDA's investment decision.

Terms

1)

- Q) Will EDA match the terms of other notes/equity raised in the round?  
A) No. The term for the convertible note from the NJ CoVest Fund are independent from the terms of the matching capital raise. However, the NJ CoVest financing will be cross defaulted with all other investor notes.

2)

- Q) My investors provided funding in the form of convertible debt, can this qualify for matching investment from the NJ CoVest Fund?  
A) Yes, it may. However, please note that in the event this debt does not convert to equity and the investors receive repayment prior to the start of repayment on the NJ CoVest Note, the NJ CoVest note will automatically match these repayment terms. Meaning, repayment on the NJ CoVest Note will move forward to start on the same date as the matched investors' debt (not at the beginning of year 8) and amortize to full repayment of outstanding principal and interest at the same repayment schedule as the matched investors' debt.

3)

- Q) What will be the pricing on the future conversion? Is there a discount?  
A) The note is convertible at the discretion of EDA upon the company closing a future qualified equity financing transaction. The conversion price for the note would be determined by the price of this qualified equity round, as determined by the other equity investors.

4)

- Q) How are the warrants priced?  
A) If the match funding investment for the NJ CoVest Fund is a priced equity round, the strike price for warrant is the share price of the match funding investment. If the matching round is unpriced, penny warrants are used.

5)

- Q) My company raised \$500,000 in our recent fundraise. Do I automatically qualify for a \$250,000 note from the NJ CoVest Fund?  
A) The maximum match amount for an outside investment on a 2:1 basis (outside match: EDA note) is \$250,000. The specific amount of the note will be determined by the match investment from the company's outside investors and is subject to the EDA's underwriting process, which may result in a match funding ratio lower than 2:1.

6)

- Q) How does the EDA determine the amount of note for which my company qualifies?  
A) The specific amount of the note is determined through the EDA's holistic underwriting process with regard to company operations and financial standing.

7)

- Q) Does the note have penalties for prepayment?  
A) No. A NJ CoVest recipient company can repay the note (principal and accrued interest) at any time without any penalties. The warrants will remain in effect until they are exercised or the term expires.

General

1)

- Q) If I qualify for NJ CoVest, would I or my investors qualify for other EDA incentives, as well?  
A) A company or investor is not disqualified from participating in other EDA programs by accepting an investment from the NJ CoVest Fund. BUT, qualifying parameters differ across different EDA financing and incentive programs. By qualifying for the NJ CoVest Fund, a company or investor is not

automatically qualified for any other EDA program. Please speak with a Venture Officer to determine the resources available to the company.

2)

- Q) I see other financing programs are available through the EDA. Can I apply for multiple funds (such as Edison Angel Growth, Edison VC Growth and Growth Stars) simultaneously?
- A) Maybe. Applicants may simultaneously apply for tax credits and incentives while applying for funding from NJ CoVest. However, applications can only be for one direct funding program (CoVest, Edison Loan) at a time. Work with your Venture Officer to determine which financing tool is the best fit for your company at this time.

3)

- Q) If I accept a NJ CoVest Fund note, does that preclude me from applying for other funds in the future?
- A) No, quite the contrary. The EDA is here as a resource for your company at all stages of growth. We would look forward to working with you on future financing opportunities.

4)

- Q) What is considered IP and why do you need it?

- A) Any of the following is considered IP for NJ CoVest:
- Patents
  - Patents Pending
  - Software Source Code Copyrighted by the Library of Congress

IP is a relevant factor in the EDA's underwriting process to determine the amount of note available to the company. Additionally, unlike our traditional asset-backed financing products, NJ CoVest does not require hard assets and personal guarantees to collateralize a note. Instead, a negative pledge is utilized with a springing lien on IP in the event of default.

5)

- Q) I have an exclusive license to a patent from a University? Does that count as sufficient IP?
- A) No. The IP must be in the name of the technology and or life science company applying for NJ CoVest. A licensee cannot pledge the agreement as it is not the IP owner.