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TO: Fred Kenney, Executive Director Vermont Economic Progress Council

CC: Brian MacDonald, Divisional Controller

FR: Jordan Robare, Manager, Accounting Operations

SUBJECT: Act 157 VEGI Policy Review Questions

DATE: August 22, 2016

On July 12, 2016 Dealer Dot Com, Inc. (hereafter "we" or "Dealer.com") was notified by the Vermont Economic Progress Council (hereafter "VEPC") that Section H.13 of Act 157 (H.868) was passed by legislature and requires VEPC to examine certain policy issues related to the Vermont Employment Growth Incentive program (hereafter "VEGI"), which Dealer.com is an active incentive recipient. The purpose of this memorandum is to provide response(s) to a selected population of topics outlined in the Section H.13 Policy Review.

<u>Sec. H.13 Vermont Employment Growth Incentive; Policy Review:</u>

Question 2: "Whether and how to include a mechanism in the Program for equity investments in incentive recipients…"

Response: *We believe that inserting such a mechanism into the program would be beneficial from the State's perspective. While the program, in its current capacity, achieves the mission of promoting growth within the State, the State is potentially losing out on potential return of equity opportunities. Structuring the investments with increased capital would allow the recipients to utilize cash in other aspects to grow the business. In addition, these types of investments provide the State with an increased ability to better monitor how businesses, especially technology centric entities, are operating and performing throughout the incentive periods and beyond. Any equity investment, typically in the form of preferred stock, would convert upon change control, thus not leaving the state 'out-of-pocket' in acquisition or exit scenarios. In addition, effective marketing of such programs would further attract businesses whom are potentially considering another state in the northeast, such as New York who currently carries a program which invests in private equity funds that target technology-based startups. Further, these marketing mechanisms could leverage some of the good press that Burlington and Vermont have recently gotten (NYT and WSJ).*

Question 3: "Whether and under what circumstances the Department of Taxes should have, and should exercise, the authority to recapture the value of incentives paid to a business that is subsequently sold or relocated out of the State, or that eliminates qualifying jobs after receiving an incentive…"

Response*: We believe that granting the authority to recapture previously distributed incentives could make sense in certain instances where the State ultimately served as a vehicle to grow the business; however, the State and DOT should be careful as it may deter potential businesses from seating in Vermont. Further, you may deter current businesses from committing to continuous growth in headcount and capital at Vermont locations. Specifically, in cases where entities continue to invest in Vermont locations subsequent to acquisition, similar to Dealer.com, it would not be wise for the State to impose* *statutes which would burden said entities whose intentions have not shifted or altered.   If you implement an approach, such as utilizing Equity Investments aforementioned, you would already be reclaiming your investment upon acquisition as you actually have equity in the Company. Also in M&A scenarios, more often than not they are cost synergy strategies as opposed to complimentary business decisions (be it the case with recent Dealer.com acquisitions). The State should be cautious to not further incentivize an incumbent acquirer to eliminate jobs in the state by taking away growth incentive opportunities – e.g. IBM and Global Foundries or Keurig and GMCR; eliminating/relocating job markets.*

Question 7: "Whether additional applicant and program data reporting and transparency could be accomplished without damage to applicant businesses…"

***Response**: We believe that aside from 'HIPPA' and other Federal statutes that may restrict certain types of data being shared, having access to increased information, program reporting and trend data, alongside things such as company success stories would be highly beneficial to the program and in instances could serve as marketing or promotional tools for incoming potential recipients. Also, promoting a network and more collaboration of Companies in the program may better help to promote the states investment in future Companies. As you will see, with each billion dollar exit there are a handful of startups that stem from the acquisition money where former employees may leave as they do not want to be part of a massive conglomerate and are more satisfied infusing startups with their ideas. This process inherently correlates to more investment opportunities for the state.*

We greatly appreciate the continued partnership we share with the VEPC and are grateful to be able to provide insight and response to the aforementioned topics.

Best Regards,

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