



3503 N.W. 63<sup>rd</sup>, Suite 200

Oklahoma City, OK 73116

Oklahoma Tax Commission that are very specific to the TAX CREDITS.

The Private Placement Memorandum is lengthy, however to shorten your read time please refer to pages numbered 3, 9, 20, 29, 30, 32, 33.

The supplement to the PPM attachment raises the maximum size of the fund from \$15 million to \$60 million.

The fifth attachment is a letter ruling from the Oklahoma Tax Commission dated October 12, 2006 allowing oil and gas producers to claim a refund on oil and gas gross production taxes paid on or after July 1, 2005.

I thought you might have an interest in this offering. If you have an interest I would very much like to speak with you. My cell phone # is 405-370-6655 and my office # is 405-879-0123.

Frank G McGuire, III

Century Advisors, LLC

fmcguire@centuryadvisor.com

\*\*Securities offered through WFG Investments, Inc., Member NASD/SIPC\*\*

Reminder: E-mail sent through the Internet is not secure. Do not use e-mail to send us confidential information such as credit card numbers, change of address, PIN numbers, passwords, or other important information. Do not buy or sell securities, transfer funds, or send time sensitive instructions. We will not accept such orders or instructions. This e-mail is not an official trade confirmation for transactions executed for your account. Your e-mail message is not private in that it is subject to review by the Firm, its officers, agents and employees.

## SUMMARY OF THE OFFERING

*This description of the Offering is intended only for convenient reference and is not intended to be complete. This Memorandum and the accompanying exhibits must be read in their entirety by prospective Investors for a complete understanding of the Fund and the Offering of Preferred Units. Capitalized terms used in this Memorandum, unless otherwise defined herein, will have the meanings given them in the Operating Agreement of the Fund and the Business Incentive Acts.*

### **Terms of the Offering**

*The Offering.* ScissorTail Venture Capital Fund I, LLC is an Oklahoma limited liability company formed to invest the net proceeds of this Offering in ScissorTail Capital Company, an Oklahoma limited liability company to be formed upon completion of this Offering. The Capital Company will make venture capital investments in small businesses located or to be located exclusively in Oklahoma. The Fund is offering a minimum of \$5,000,000 and a maximum of \$15,000,000 of Preferred Units at \$100,000 per Preferred Unit. The minimum purchase is \$100,000; however, the Manager may in its discretion accept lesser amounts. The purchase price has been arbitrarily determined by the Manager. Pursuant to the Operating Agreement, the Members are not required to contribute additional amounts to the capital of the Company.

*Payment.* The full purchase price of each Preferred Unit is payable at the time of subscribing and must be accompanied by a fully executed Subscription Agreement, Exhibit C. Subscriptions will be held in a non-interest bearing escrow account at Bank of Oklahoma, NA, Oklahoma City until the minimum subscriptions of \$5,000,000 are obtained. After the minimum subscriptions are obtained a closing will be held. Additional subscriptions in the escrow account will be transferred to the Fund monthly after the initial closing.

*Offering Period.* The Offering will terminate May 1, 2006, unless extended an additional 120 days in the discretion of the Manager.

### **Fund Operations**

*Fund Investments.* The Fund may invest in a wide variety of Portfolio Companies. It has not targeted specific industries or companies in a particular stage of development for investment. Its priority is to locate or form companies that will offer the Fund an attractive return on investment and meet the investment requirements of the Fund's lenders. Because there may be limited candidates for investment that are existing companies, the Fund may be required to start its own Portfolio Companies that will meet its investment requirements.

The Fund will invest in, or form, Portfolio Companies that will meet its specific investment requirements. These Portfolio Companies will typically be companies with sufficiently large enterprise valuations to support large investments of equity. Because a typical investment may be in the range of \$20 million to \$25 million, the Portfolio Company must have a large enterprise valuation and a large amount of unencumbered assets that would support a repayment of the Fund's investment. In most cases, a Portfolio Company will be very capital intensive, in contrast with service companies, for example, which are personnel intensive.

Portfolio Companies must also have the ability to redeem the equity investment made by the Fund in the Portfolio Companies and must be suitable to the Fund's lenders.

*Loans to be Obtained by the Fund.* The Manager is arranging for loans to the Fund of approximately \$90,000,000, (the "Loans"). The total amount of Loans will be dependent upon the types of investment by the Capital Company, in terms of rural or urban companies, for the purposes of the Business Incentive Acts. Loan proceeds will be invested by the Fund in the Capital Company or directly by the Fund in the Portfolio Companies ("Direct Investments"). It is anticipated that the Loans will be guaranteed by the Capital Company and secured by the Fund's units in the Capital Company and the Fund's and the Capital Company's Portfolio Investments in the Portfolio Companies. It is anticipated that the investments which are made by the Capital Company will be in the form of preferred stock, which may have varying rights with respect to conversion into common equity, redemption, dividends and preferences upon liquidation.

The funds from the Portfolio Investments will typically be used by a Portfolio Company for specific budgeted items or for working capital and the extent to which such funds may be used by a Portfolio Company for such purposes will be subject to covenants and restrictions which will vary for each Portfolio Company, depending upon the financial condition of the Portfolio Company, the Portfolio Company's business plan and objectives, requirements of the Fund's lenders and general industry standards. It is anticipated that the assets of Portfolio Companies started by the Fund will be pledged as security for the Loans. The Fund will not close unless commitments for the Loans have been obtained. The terms of the Loans will be disclosed in a supplement to this Memorandum.

## **Tax Benefits**

*Oklahoma Tax Credits.* The Fund is expected to qualify for Tax Credits under the Business Incentive Acts based on the Capital Company's investments in Portfolio Companies. The Manager has received a favorable ruling from the Oklahoma Tax Commission that the credits earned by the Fund may include investment of proceeds of the Loans in the Portfolio Investments and that such credits earned by the Fund will pass through and be available to the Preferred Unit Holders. The private letter ruling from the Oklahoma Tax commission will be made available upon request by prospective investors who agree to maintain the confidentiality of the ruling's contents and agree to use the letter only for the purpose of evaluating an investment in the Fund. These credits may be applied to the following Oklahoma taxes:

- Gross production taxes
- Additional excise tax on gas
- Bank privilege taxes
- Insurance company premium taxes
- Income taxes

It is anticipated that purchasers of the Preferred Units will receive Tax Credits in the amount of \$2.00 for each \$1.00 invested in the Preferred Units assuming all Portfolio Companies qualify under the Business Incentive Acts.

# OKLAHOMA TAX COMMISSION

TAX POLICY AND RESEARCH DIVISION  
TONY MASTIN, DIRECTOR

PHONE (405) 521-3133  
FACSIMILE (405) 522-0063



June 29, 2006

Robert O. O'Bannon  
*Phillips, McFall, McCaffrey, McVay & Murrah, P.C.*  
Attorneys At Law  
Twelfth Floor, One Leadership Square  
211 North Robinson  
Oklahoma City, OK 73102

Re: Our file number LR-06-093

Dear Mr. O'Bannon:

This letter ruling is in response to your inquiry of June 26, 2006 where in you posed a series of ruling requests relating to the Small Business Capital Formation Incentive Act (68 O.S. §2357.60 et. seq.) and Rural Venture Capital Formation Incentive Act (68 O.S. §2357.70 et seq.). Following a restatement of the facts outlined in your letter, are the specific rulings requested and our responses thereto.

Statement of Facts:

1. On November 22, 2005, Scissortail respectfully submitted a letter ruling request to the Oklahoma Tax Commission seeking a ruling that (i) the proposed investments outlined in the letter ruling request qualified for the Oklahoma Tax Credits, and (ii) the Oklahoma investors were eligible to utilize the Oklahoma Tax Credits upon the investment in the Portfolio Companies (the "Ruling Request").
2. In response, the Tax Policy and Research Division of the Oklahoma Tax Commission issued certain rulings to Scissortail in a letter dated November 23, 2005 (the "Ruling"). In the Ruling, the Oklahoma Tax Commission provided that the proposed investments outlined in the Ruling Request would qualify for the Oklahoma Tax Credits, and the Oklahoma investors were eligible to utilize the Oklahoma Tax Credits upon the investment in the Portfolio Companies.
3. Scissortail submitted a supplemental letter ruling request to the Oklahoma Tax Commission (the "Supplemental Request"). The Supplemental Request supplemented the facts contained in the previous Ruling Request and requested confirmation from the Oklahoma Tax Commission that those additional facts did not impact the Ruling issued by the Oklahoma Tax Commission and received by Scissortail.

4. In response, the Tax Policy and Research Division of the Oklahoma Tax Commission issued a ruling to Scissortail (the "Supplemental Ruling"). In the Supplemental Ruling, the Oklahoma Tax Commission stated that the supplemental facts contained in the Supplemental Request did not impact the Ruling issued by the Oklahoma Tax Commission and received by Scissortail.
5. Senate Bill 1577, signed by the Governor of the State of Oklahoma on June 6, 2006, makes certain amendments to the Business Incentive Acts which become effective July 1, 2006 (the "Amendments"). The Amendments, among other things, (i) eliminate the use of the Oklahoma Tax Credits against Oklahoma gross production tax and the additional excise tax on oil and gas imposed under 68 Okla. Stat. § 1101 and 1002, and (ii) reduce the carry forward of the Oklahoma Tax Credits from ten (10) years to three (3) years.
6. The Amendments also provide a "grandfather clause" for those persons or entities who have obtained a favorable determination letter from the Oklahoma Tax Commission prior to March 15, 2006. Under the Amendments, any person or entity that has obtained a favorable determination letter from the Oklahoma Tax Commission prior to March 15, 2006, regarding the ability to claim or otherwise utilize the Oklahoma Tax Credits shall not be subject to the Amendments to the Business Incentive Acts made by Senate Bill 1577 for investments made in Portfolio Companies prior to November 1, 2006 and which meet the statutory requirements set forth in 68 Okla. Stat. § 2357.63EA and/or 68 Okla. Stat. § 2357.74EA.

Rulings Requested:

Based upon these facts, Scissortail respectfully requests a letter ruling from the Tax Policy and Research Division of the Oklahoma Tax Commission that:

1. The rulings made by the Tax Policy and Research Division of the Oklahoma Tax Commission in its Ruling to Scissortail dated November 23, 2005, are still valid and effective after the enactment of Senate Bill 1577 due to the "grandfather clause" set forth in 68 Okla. Stat. § 2357.63E and 68 Okla. Stat. § 2357.74E.

*Yes. The rulings were contained within a "favorable determination letter" as required under §2357.63E and §2357.74E and were issued by this office prior to March 15, 2006.*

2. The rulings made by the Tax Policy and Research Division of the Oklahoma Tax Commission in its Supplemental Ruling to Scissortail, are still valid and effective after the enactment of Senate Bill 1577 due to the "grandfather clause" set forth in 68 Okla. Stat. § 2357.63E and 68 Okla. Stat. § 2357.74E.

*Yes. The rulings were contained within a "favorable determination letter" as required under §2357.63E and §2357.74E and were issued by this office prior to March 15, 2006.*

3. Scissortail Capital Company, LLC (the "Capital Company") and Scissortail Venture Capital Fund I, LLC (the "Venture Fund") are entities that have obtained a favorable determination letter from the Oklahoma Tax Commission prior to March 15, 2006 regarding their ability to claim or otherwise utilize the Oklahoma Tax Credits authorized by the Business incentive Acts as required by the Amendments to the Business incentive Acts.

*Yes, as provided in the answers to requests #1 and #2 above.*

4. As entities who have obtained a favorable determination letter from the Oklahoma Tax Commission prior to March 15, 2006, the Capital Company, the Venture Fund and their investors shall not be subject to the Amendments to the Business Incentive Acts made by Senate Bill 1577 on qualified investments made in Portfolio Companies prior to November 1, 2006 and which meet the statutory requirements set forth in 68 Okla. Stat. § 2357.63EA and/or 68 Okla. Stat. § 2357.74EA.

*Yes. The Capital Company, the Venture Fund and their investors are not subject to the amendments contained within HB 1577 if all the requirements for investments contained in §2357.63E and §2357.74E are met.*

5. As entities who have obtained a favorable determination letter from the Oklahoma Tax Commission prior to March 15, 2006, the Capital Company, the Venture Fund, and their investors shall be able to use their Oklahoma Tax Credits to offset Oklahoma income taxes (including estimated income taxes), bank privilege taxes and insurance company premium taxes on qualified investments made in Portfolio Companies prior to November 1, 2006 and which meet the statutory requirements set forth in 68 Okla. Stat. § 2357.63EA and/or 68 Okla. Stat. § 2357.74EA.

*Yes. The Capital Company, the Venture Fund, and their investors may use their Credits to offset Oklahoma income taxes (including estimated income taxes), bank privilege taxes and insurance company premium taxes on qualified investments made in Portfolio Companies prior to November 1, 2006 and which meet the statutory requirements set forth in 68 Okla. Stat. § 2357.63E and/or 68 Okla. Stat. § 2357.74E.*

6. As entities who have obtained a favorable determination letter from the Oklahoma Tax Commission prior to March 15, 2006, the Capital Company, the Venture Fund, and their investors shall be able to use their Oklahoma Tax Credits against Oklahoma gross production tax and the additional excise tax on oil and gas imposed under 68 Okla. Stat. § 1101 and 1002 due on or after July 1, 2006, on qualified investments made in Portfolio Companies prior to November 1, 2006 and which meet the statutory requirements set forth in 68 Okla. Stat. § 2357.63EA and/or 68 Okla. Stat. § 2357.74EA.

*Yes. The Capital Company, the Venture Fund, and their investors may use their Credits against Oklahoma gross production tax and the additional excise tax on oil and gas imposed under 68 Okla. Stat. § 1101 and 1002 due on or after July 1, 2006, on qualified investments made in Portfolio Companies prior to November 1, 2006 and which meet the statutory requirements set forth in 68 Okla. Stat. § 2357.63E and/or 68 Okla. Stat. § 2357.74E.*

7. As entities who have obtained a favorable determination letter from the Oklahoma Tax Commission prior to March 15, 2006, the Capital Company, the Venture Fund, and their investors shall be able to carry forward the Oklahoma Tax Credits for ten (10) years for investments made in Portfolio Companies prior to November 1, 2006 and which meet the statutory requirements set forth in 68 Okla. Stat. § 2357.63EA and/or 68 Okla. Stat. § 2357.74EA.

*Yes. The Capital Company, the Venture Fund, and their investors may carry forward their Credits for ten (10) years for investments made in Portfolio Companies prior to November 1, 2006 and which meet the statutory requirements set forth in 68 Okla. Stat. § 2357.63EA and/or 68 Okla. Stat. § 2357.74EA.*

8. The Portfolio Companies, which will receive qualified investments from the Capital Company and the Venture Fund, will have one-hundred eighty (180) days after the qualified investment is made to have at least fifty percent (50%) of its employees or assets located in Oklahoma.

*Yes, within 180 days after the qualified investment, the portfolio companies must have at least 50% of its employees or assets located in Oklahoma.*

9. Entities who have obtained a favorable determination letter from the Oklahoma Tax Commission prior to March 15, 2006 will be deemed to have made a qualified investment and met the requirements of 68 Okla. Stat. § 2357.63E and § 2357.74E if:

(1) such investment is made prior to November 1, 2006 "... to satisfy a legitimate business purpose of the entity receiving such investment which is consistent with its organizational instruments, bylaws or other agreement responsible for the governance of the business venture";

(2) the capital company's funds were at risk; and

(3) if the investments meet the requirements of (1) above they will be deemed not to have been made chiefly for the purpose of reducing tax liability.

*Yes, provided, it will be necessary for the Tax Policy Division to review the actual investment plans, the bylaws or similar documents of the business venture (Portfolio Company), and any other necessary documentation prior to issuing a ruling as to whether the provisions of §2357.63E and §2357.74E have been met to qualify the investments for the Credits.*

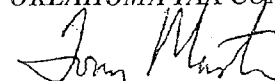
This response applies only to the circumstances set out in your request of June 26, 2006. Pursuant to Commission Rule 710:1-3-73(e), this Letter Ruling may be generally relied upon only by the entity to whom it is issued and its investors, assuming that all pertinent facts have been accurately and completely stated, and that there has been no change in applicable law.

Please be advised that the issuance of this ruling does not preclude the Oklahoma Tax Commission from conducting an audit or examination under 68 O.S. §206 if any report or return claiming a credit for the transactions outlined in this letter ruling. The Commission reserves the right to issue any assessment, correction, or adjustment authorized under 68 O.S. §221.

If I can be of further assistance, please feel free to contact me.

Sincerely,

OKLAHOMA TAX COMMISSION



Tony Mastin, Director

Tax Policy & Research Division

# OKLAHOMA TAX COMMISSION

TAX POLICY AND RESEARCH DIVISION  
TONY MASTIN, DIRECTOR

PHONE (405) 521-3133  
FACSIMILE (405) 522-0063

February 3, 2006

Robert O. O'Bannon  
Phillips, McFall, McCaffrey, McVay & Murrah, P.C.  
Attorneys At Law  
Twelfth Floor  
One Leadership Square  
211 North Robinson  
Oklahoma City, OK 73102

Re: Our file number LR 05-178 Supplemental; Income Tax - Small Business Capital Formation Incentive Act and Rural Venture Capital Formation Incentive Act

Dear Mr. O'Bannon:

This is in response to your inquiry of January 19, 2006 wherein supplemented the facts to the ruling requests relating to the Small Business Capital Formation Incentive Act (68 O.S. § 2357.60 et. seq.) and Rural Venture Capital Formation Incentive Act (68 O.S. § 2357.70 et. seq.) - LR05-178. Following is a restatement of the additional facts outlined in your letter, the supplemental ruling requested and our response thereto.

## SUPPLEMENTAL FACTS:

Paragraph 15 of the Ruling Request is deleted in its entirety and the following is substituted in its place

15. The Capital Company will make investments in Portfolio Companies. The investment will be in the form of Portfolio Company Stock. The funds from the investment in the Portfolio Company Stock will be deposited by the Portfolio Company in its corporate accounts. *If required by the Bank, a Portfolio Company may be required to escrow a portion of the proceeds from the investment in a lender controlled account to secure the Venture Funds indebtedness.* The funds from the investment in the Portfolio Company Stock will typically be used by the Portfolio Company for specific budgeted items or for working capital and the extent to which such funds may be used by the Portfolio Company for such purposes will be subject to covenants and restrictions which will vary for each Portfolio Company, depending upon the Portfolio Company's business plan and objectives, requirements of the Capital Company's lenders and general industry standards.

2501 NORTH LINCOLN BOULEVARD • OKLAHOMA CITY • OKLAHOMA 73194

IT IS OUR MISSION TO SERVE THE PEOPLE OF OKLAHOMA BY PROMOTING TAX COMPLIANCE THROUGH QUALITY SERVICE AND FAIR ADMINISTRATION

SUPPLEMENTAL RULING REQUESTED AND OKLAHOMA TAX COMMISSION  
RESPONSE:

Scissortail requests that the Oklahoma Tax Commission confirm that the additional facts presented herein do not alter any of the specific rulings issued in the letter from the Oklahoma Tax Commission to me dated November 23, 2005 regarding the availability of tax credits under the Small Business Capital Formation Incentive Act (68 O.S. § 2357.60 et. seq.) and Rural Venture Capital Formation Incentive Act (68 O.S. § 2357.70 et. seq.) to investors in the Venture Funds.

*The additional facts presented do not alter any specific rulings issued under LR05-178 dated November 23, 2005.*

This response applies only to the circumstances set out in your request of January 19, 2006. Pursuant to Commission Rule 710:1-3-73(e), this Letter Ruling may be generally relied upon only by the entity to whom it is issued, assuming that all pertinent facts have been accurately and completely stated, and that there has been no change in applicable law.

Please also be advised that the issuance of this ruling does not preclude the Oklahoma Tax Commission from conducting an audit or examination under 68 O.S. § 206 Scissortail Private Equity, LLC, Scissortail Venture Capital Fund I, LLC, any direct or indirect investors, or any member of these LLC's regarding the transactions outlined in this letter ruling. The Commission further reserves the right to issue any assessment, correction, or adjustment authorized under 68 O.S. § 221.

If I can be of further assistance, please feel free to call me at (405) 521-3133.

Sincerely,

FOR THE OKLAHOMA TAX COMMISSION



Michael C. Kaufmann  
Tax Policy Analyst

# OKLAHOMA TAX COMMISSION

TAX POLICY AND RESEARCH DIVISION  
TONY MASTIN, DIRECTOR

PHONE (405) 521-3133  
FACSIMILE (405) 522-0063

November 23, 2005

Robert O. O'Bannon  
Phillips, McFall, McCaffrey, McVay & Murrah, P.C.  
Attorneys At Law  
Twelfth Floor  
One Leadership Square  
211 North Robinson  
Oklahoma City, OK 73102

Re: Our file number LR 05-178; Income Tax - Small Business Capital Formation Incentive Act and Rural Venture Capital Formation Incentive Act

Dear Mr. O'Bannon:

This is in response to your inquiry of November 22, 2005 wherein you posed a series of ruling requests relating to the Small Business Capital Formation Incentive Act (68 O.S. § 2357.60 et. seq.) and Rural Venture Capital Formation Incentive Act (68 O.S. § 2357.70 et. seq.). Following is a restatement of the facts outlined in your letter, the specific rulings requested and our responses thereto.

## FACTS:

Scissortail Private Equity, LLC, an Oklahoma limited liability company, ("Scissortail") intends to organize a series of venture capital funds ("Funds") for the purpose of allowing Oklahoma investors to make investments through the Funds in various Oklahoma small business ventures as defined in 68 Okla. Stat. §2357.61 and in various Oklahoma rural small business ventures as defined in 68 Okla. Stat. §2357.72 (collectively the "Portfolio Companies") which will qualify for certain Oklahoma tax credits (collectively the "Oklahoma Tax Credits") as provided under 68 Okla. Stat. §2357.60 et. seq. and §2357.70, et seq. (collectively the "Business Incentive Acts"). A diagram of the proposed structure of the investment by the venture funds is attached.

1. Scissortail will be formed by Sidney R. Clarke III and Sidney R. Clarke, IV as an Oklahoma limited liability company to act as the venture management company. Sidney R. Clarke III will own Scissortail and Sidney R. Clarke IV will be the manager of the Scissortail.
2. Scissortail will then form the Scissortail Venture Capital Fund I, LLC, as an Oklahoma limited liability company, (the "Venture Fund"). The purpose of the Venture Fund is to raise venture capital from accredited investors ("Oklahoma Investors") to be invested in

2501 NORTH LINCOLN BOULEVARD • OKLAHOMA CITY • OKLAHOMA 73194

IT IS OUR MISSION TO SERVE THE PEOPLE OF OKLAHOMA BY PROMOTING TAX COMPLIANCE THROUGH QUALITY SERVICE AND FAIR ADMINISTRATION

Oklahoma small business ventures as defined in 68 Okla. Stat. §2357.61 and qualified rural small business capital companies under 68 Okla. Stat. §2357.72.

3. Scissortail and the Oklahoma Investors in the Venture Fund will be the members of the Venture Fund. The Venture Fund intends to issue two types of securities, Common Units, and Preferred Units, to investors. The Oklahoma Investors will be issued all of the Preferred Units. Scissortail will be issued Common Units. In addition, the Venture Fund will obtain loans ("Loans") from financial institutions. The Loans will have a fixed term, but may be prepaid without penalty.
4. The principals of Scissortail intend to form Scissortail Capital Company, LLC as an Oklahoma limited liability company (the "Capital Company") which will be designed to meet the definition of a qualified small business capital company under 68 Okla. Stat. §2357.61 (7) and of a qualified rural small business capital company under §2357.72 (8).
5. The Venture Fund will be the sole member of the Capital Company.
6. The Venture Fund and the Capital Company will not elect to be treated as corporations for Federal income tax purposes. Therefore, the Venture Fund will be treated as a partnership for both Federal and state income tax purposes and the Capital Company will be treated as a disregarded entity for both Federal and state income tax purposes.
7. Scissortail will be the manager of the Venture Fund and the Capital Company.
8. The Venture Fund intends to raise in the range of Five Million Dollars (\$5,000,000) to Fifteen Million Dollars (\$15,000,000) of equity capital from Oklahoma Investors.
9. The Venture Fund intends to borrow in the range of Eighty-five Million Dollars (\$85,000,000) to Ninety Million Dollars (\$90,000,000) (the "Bank Loan") from an Oklahoma financial institution (the "Bank") provided such amount may be increased or decreased. The Fund will pledge its interests in the Capital Company to secure the Bank Loan.
10. The Venture Fund intends to transfer not less than one-third of its capital, less organization expenses, to the Capital Company in return for all the ownership interest (common units) in the Capital Company. The balance of the capital of the Venture Fund will be retained to make direct investments in the Oklahoma small business ventures or in the Oklahoma rural small business ventures which are intended to qualify for the Oklahoma Tax Credits (collectively the "Direct Investments"). In the event that the Capital Company qualifies as a small business capital company under 68 Okla. Stat. § 2357.63, the diversification requirement is no more than twenty percent (20%) of the Capital Company funds invested in any one Portfolio Company and in the event that the Capital Company qualifies as a qualified rural small business capital company under 68 O.S. § 2357.72, the diversification

LR05-178

11/23/05

Page 3

requirement is no more than twenty-five percent (25%) of the Capital Company funds invested in any one Portfolio Company

11. The Venture Fund intends to make its Direct Investments, in the form of equity (i.e. Common Stock, Redeemable Convertible Preferred Stock, Preferred Stock or Warrants, collectively the "Portfolio Company Stock") in the Portfolio Companies upon the same terms and conditions as the Capital Company investments in the Portfolio Companies.
12. The Capital Company will guarantee the Bank Loan and will pledge its Portfolio Company Stock in the Portfolio Companies as security for the Bank Loan. The Venture Fund may also pledge the Portfolio Company Stock in the Portfolio Companies as a result of the Direct Investments as security for the Bank Loan.
13. None of the Portfolio Companies will be engaged in oil and gas exploration, real estate development, real estate sales or rentals, wholesale sales, retail sales, farming, ranching, banking or lending, investing funds in other businesses or in any other type of business which would prevent the investment of the Capital Company in any Portfolio Company from qualifying for the Oklahoma Tax Credits. Each of the Portfolio Companies will have at least 50% of its employees or assets located in Oklahoma and shall meet the statutory definition of an Oklahoma small business venture or an Oklahoma rural small business venture by the end of the fiscal year of the initial investment by the Capital Company in the Portfolio Company. Each of the Portfolio Companies will need financial assistance in order to commence or expand its business.
14. The Capital Company intends to notify the Venture Fund immediately when investments are made in qualifying Portfolio Companies and the Venture Fund will then notify the holders of the Preferred Units of their proportionate shares of the Oklahoma Tax Credits earned from such investment.
15. The Capital Company will make investments in Portfolio Companies. The investment will be in the form of Portfolio Company Stock. The funds from the investment in the Portfolio Company Stock will be deposited by the Portfolio Company in its corporate accounts. The funds from the investment in the Portfolio Company Stock will typically be used by the Portfolio Company for specific budgeted items or for working capital and the extent to which such funds may be used by the Portfolio Company for such purposes will be subject to covenants and restrictions which will vary for each Portfolio Company, depending upon the Portfolio Company's business plan and objectives, requirements of the Capital Company's lenders and general industry standards.
16. Scissortail will be entitled to receive an annual management fee from the Fund of three percent (3%) of the amount received by the Venture Fund as capital contributions by the holders of the Preferred Units less sales commissions paid and one-half percent (.5%) of the

outstanding principal amount of the Loans. Except for the first year, all management fees will be subordinated to the payment of interest and principal on the Bank Loan. In the years following the completion of investments in the Portfolio Companies, the Management Fee will decrease to 1 % of the amount received by the Venture Fund as capital contributions by the holders of the Preferred Units less sales commissions paid and 0.5% of the principal amount of outstanding Loans. Upon liquidation of the Venture Fund or whenever funds are available, any accrued management fees will become immediately due and payable subject to payment of principal and interest on the Bank Loan. As manager of the Capital Company, Scissortail will also be entitled to a one-time fee of \$50,000 for each investment made by the Capital Company or the Venture Fund in a Portfolio Company which amount will be payable to Scissortail upon closing of the investment in each Portfolio Company.

17. Cash and property distributions by the Venture Fund will be made first to the holders of Preferred Units until they have realized a return of 200% of their subscription amount in either Oklahoma Tax Credits or cash/property distributions from the Venture Fund. After that, the holders of Preferred Units will be entitled to a 10% allocation of cash and property distributions from the Venture Fund.
18. The holders of the Common Units will receive no distributions from the Venture Fund until the holders of the Preferred Units have realized a 200% return of their subscription amount in either Oklahoma Tax Credits or cash/property distributions from the Venture Fund. After that, holders of Common Units will be entitled to a ninety percent (90%) allocation of cash and property distributions from the Venture Fund
19. The Operating Agreement of the Venture Fund will provide that all of the Oklahoma Tax Credits earned by the Venture Fund will be allocated to the holders of the Preferred Units and none of the Oklahoma Tax Credits will be allocated to the holders of the Common Units.
20. The Operating Agreement of the Venture Fund will provide that profits and losses will be allocated (i) 100% to the holders of the Preferred Units until they have received 200% of their subscription amount in Oklahoma Tax Credits or distributions of cash/property from the Venture Fund, and (ii) thereafter 90% to the holders of the Common Units and 10% to the holders of the Preferred Units.

RULINGS REQUESTED AND OKLAHOMA TAX COMMISSION RESPONSES:

1. The investment by the Venture Fund in the Capital Company followed by an investment by the Capital Company in the Portfolio Companies will qualify for the Oklahoma Tax Credits described in 68 Okla. Stat. §2357.62 or 68 Okla. Stat. § 2357.73, respectively, depending upon whether the investment is in a small business venture or a rural small business venture.

*The investment by the Venture Fund (Scissortail Venture Capital Fund, LLC) into the Capital Company (Scissortail Capital Company LLC) will qualify for either the Oklahoma Small Business Capital Company Credit or the Rural Small Business Venture Capital Credit upon Capital Company's investment in a Portfolio Company (a qualified Oklahoma small business), provided the amount invested by the Capital Company into a single Portfolio Company does not exceed the percentage limits outlined in 68 O.S. § 2357.61 7(d) or 68 O.S. § 2357.72 8(d).*

2. The Direct Investments by the Venture Fund in the Portfolio Companies will qualify for the Oklahoma Tax Credits under 68 Okla. Stat. §2357.63 or §68 O.S. § 2357.74, respectively, depending upon whether the investment is in a small business venture or a rural small business venture.

*The direct investment by the Venture Fund (Scissortail Venture Capital Fund, LLC) into a Portfolio Company (a qualified Oklahoma small business) will qualify for either the Oklahoma Small Business Capital Company Credit or the Rural Small Business Venture Capital Credit if made in conjunction with the Capital Company's investment in a Portfolio Company, subject to the limits outlined in 68 O.S. § 2357.63 (B)(4) or 68 O.S. § 2357.74 (B)(4).*

3. The Oklahoma Tax Credits earned by the investments made by the Venture Fund as described in paragraph (1) and (2) above (the Qualifying Investments") will pass through to the members of the Venture Fund as set forth in Paragraph 4.

*Yes. In the case of flow-through entities (LLC's, partnerships, and Sub S corporation), the credit is generally distributed to the appropriate member, partner or shareholder. The Tax Commission has historically allowed the distributing entity to determine how the amounts of credits are distributed so long as the following two conditions are met. One, the amount distributed does not exceed the amount of available credit and two, distribution must be made to a member, shareholder or partner of the flow through entity that has generated the credit.*

4. All of the Oklahoma Tax Credits may be specially allocated to the holders of the Preferred Units as provided in the Operating Agreement of the Venture Fund and may be utilized to offset various Oklahoma taxes of the holders of the Preferred Units in the Venture Fund.

*See response to number 3 above.*

5. The Oklahoma Tax Credits earned, which are specially allocated to any holder of the Preferred Units, may immediately upon the Qualifying Investment in a Portfolio Company be used to offset Oklahoma taxes, including income taxes, estimated income taxes, bank privilege taxes and insurance company premium taxes when due.

*The credits are available to be used to offset Oklahoma taxes when due, provided income tax year integrity is maintained. For example, an investment made in 2006 generates a credit that is available to offset tax year 2006 taxes and would not be available to pay 2005 income tax that may be due in 2006.*

6. The Oklahoma Tax Credits on Qualifying Investments made prior to the July 1, 2006 effective date of the amendment to 68 Okla. Stat. §2357.73A (allowing the Oklahoma tax credits to offset gross production under 68 Okla. Stat. §1001, the additional excise tax on oil under 68 Okla. Stat. §1101 or the additional excise tax on gas under 68 Okla. Stat. § 1002) (collectively, the "Amendment") which are allocated to the holders of the Preferred Units may be used to offset such gross production or excise taxes of the holders of the Preferred Units due or payable at any time on or after the effective date of the Amendment.

*Yes. Previously earned but not used Oklahoma Small Business Capital Company Credits or Rural Small Business Venture Capital Credits may be used to offset gross production taxes due on or after July 1, 2006.*

7. The calculation of the amount of the Oklahoma Tax Credits earned by the Fund shall include the investment in the Portfolio Companies in the form of Portfolio Company Stock.

*Yes. The investment in the Portfolio Companies in the form of Portfolio Company Stock will qualify as an investment under 68 O.S. § 2357.62(B) or 68 O.S. § 2357.73(B).*

8. The Capital Company will qualify as both a small business capital company under 68 Okla. Stat. §2357.63 and as qualified rural small business capital company under 68 Okla. Stat. § 2357.72 and as a result, the Capital Company's investment in Portfolio Companies that qualify as either metro small business capital companies or as rural small business capital companies will qualify for the Oklahoma Tax Credits as long as the Capital Company meets the diversification requirement that no more than twenty percent (20%) of the Capital Company funds are invested in anyone Portfolio Company.

*Yes. There is no prohibition from the same entity being both a Small Business Capital Company and a Rural Small Business Capital Company. The statute does not allow the same investment into a "Portfolio Company" to be used to generate both credits, however. (68 O.S. § 2357.62 (F) and 68 O.S. § 2357.73 (F)).*

9. If more than six months after obtaining the capital from the Capital Company, a Portfolio Company uses the capital to purchase 51 % or more of the voting interests of another legal