COMMONWEALTH CAPITAL

A Community-Centric
Small Business Holding Company

If you could find a way to help raise funds for small businesses that does not require prior experience, extensive financial connections or new regulations to be put in place first, would you be interested?

Helping Small Business

Are you interested in arranging funding to help small businesses raise capital to launch, grow and maintain themselves?

Types of Businesses

Do you have a particular type of business that you would like to help, such as women, minority or veteran owned businesses? How about green businesses or businesses being sold by retiring small business owners? Are you concerned with small businesses in an economically depressed neighborhood?

Starting a Fund

Have you ever contemplated putting together a venture capital or private equity fund, but lack the requisite experience or financial connections? Were you hoping to use a crowdfunding portal, but are frustrated by the delays in implementation of Title III under the JOBS Act? Or that you don't have the connections to accredited investors for a viable Title II (Reg D Rule 506) or Title IV (Reg A/A+) fund raising platform?

LACK OF FUNDING FOR SMALL PRIVATE BUSINESSES

Whereas Wall Street and its public companies are awash in cash and are more profitable than ever, local communities and Main Street businesses are struggling to stay afloat.

Small businesses with less than 20 employees account for over 50% of all jobs, inclusive of government, big business, and non-profit organizations. And they account for all of the net *new* jobs created each year. All other segments lose more jobs than they create.

Still, small businesses of all types struggle to obtain enough capital (sell stock) and get credit (bank loans) to launch, grow and maintain themselves.

The financial crisis of 2008 exacerbated the problem, with regulators pushing banks to make fewer loans and investors pulling back from both the size and number of investments they made before the collapse.

But this fundraising problem has been around since at least the 1930s, when the majority of the nation's securities laws were established on the heels of the 1929 stock market crash.

Their primary purpose was to protect the general public from unscrupulous investment schemes. Those rules make sense on Wall Street, and if properly applied, work well there.

The same is not true for small businesses. They make it extremely difficult for small businesses to raise capital, because in practice they force them to seek investments only from wealthy sources (2% of the population), not the general public. Most entrepreneurs are unlikely to know such wealthy people.

THE JOBS ACT

The ability to sell shares to the general public is the chief driver behind the crowdfunding movement. It resulted in the 2012 JOBS Act, a rare bipartisan bill that passed with overwhelming margins.

If fully implemented, it would have opened up new channels of fundraising for small businesses and opportunities for those wishing to facilitate fundraising.

Unfortunately, due to SEC inaction, implementation of the most democratic portion of that bill (Title III) was delayed until October 2015.

And even though Title II has been implemented and is working well, without connections to accredited investors, Title II fundraising is just as out of reach to most fundraisers as it is to individual entrepreneurs.

If the JOBS Act isn't doing the job, what about a traditional venture capital or private equity fund, or assembling a group of investors and helping them manage an angel fund?

Unfortunately, those paths are rarely open to someone with no experience or connections to wealthy funding sources. That is especially true for women and minorities. Venture capital is dominated by white males who tend to fund (mostly young) white males who go on to become successful entrepreneurs and then venture capitalists themselves, completing the vicious cycle that excludes others.

THE SBHC OPTION

AN ALTERNATIVE FUNDING VEHICLE FOR SMALL BUSINESS CAN BE FOUND IN A PUBLIC SMALL BUSINESS HOLDING COMPANY™ (SBHC™)

WHAT IS A HOLDING COMPANY?

A holding company is a company whose primary purpose is to have ownership in a number of common types of assets such as real estate, airplanes, banks, brand names, patents, copyrights trademarks and bonds.

However, the most common form of holding company is one that owns equity in other companies, in whole or part, usually in the form of stock, but can include interest in limited partnerships and limited liability companies. Generally those companies are referred to as subsidiaries and if the holding company owns 100% of a subsidiary it is called a wholly owned subsidiary.

One of the most famous public holding companies with more than 50 partially owned and wholly owned subsidiaries is Berkshire Hathaway.

Most public holding companies focus on large companies, primarily for economies of scale. However, there is no reason why a public holding company cannot focus on smaller businesses — precisely what a public SBHC does.

In many ways SBHCs are a more complete mechanism for providing funding to a much wider spectrum of small businesses than all other funding vehicles.

One of the main reasons is that a public SBHC solves one of the most common problems associated with investing in small private companies – the illiquid nature of the investment.

A public company's shares can be bought and sold on the stock market (i.e., they are liquid). However, equity in small private businesses cannot normally be bought and sold easily (illiquid). A public SBHC solves that problem by itself being a public company, whose shares can be bought and sold like any other public company, but which invests in or aquires small, private companies.

Their subsidiaries can be startup, growth and mature companies. And if the SBHC is publicly traded, it offer its investors real time liquidity (sell their stock anytime they want) just as with investments in other public companies on Wall Street.

> Thus they are probably the most complete and attractive funding vehicle for small businesses and their financial backers of any option out there.

Anyone trying to start an SBHC is likely to face the same hurdles as when forming a conventional company that they want to take public (a very difficult task).

The managers of an SBHC would have to build their company to a sufficient size and value to justify going public. To do that, they would need to succeed in raising sufficient private capital to acquire a portfolio of companies large enough to justify being a public company.

Once the company is ready to go public, they would need to apply to the SEC to become a public company (described below). With that approval, they would normally put together an initial public offering (IPO) or raise additional money privately or recruit existing owners to exchange their holdings for stock in the SBHC before it becomes public, such that the company is big enough, and attractive enough to encourage active trading in its stock.

Whew! All of this is a very tough row to hoe.

> There is now another way to start an SBHC that does not have those high hurdles — the CC "Holding Company of Holding Companies."

One company goes through all the complications to be a public company and then serves as an umbrella organization to allow others to grow under it until they are ready to be full blown public companies in their own right.

HOW IT WORKS

Commonwealth Capital (CC) is a California benefit corporation organized to become a public Small Business Holding Company company (SBHC).

A corporation legally becomes a public company and is permitted to freely sell some of its shares to the public when it files with the SEC to be classified as an SEC registered public company. Once it does, CC, like any other public company of similar size and revenue, will be required to file annual and quarterly public disclosures (10K & 10Qs).

Registering with the SEC entails fulfilling requirements that incur cost and management time. It is not a step to be taken lightly. However, there are good reasons for a company that intends to become an SBHC do so early on.

Most companies go public after a number of years of successful growth, when they are large enough to justify being a public company with a substantial number of shareholders. In fact, to the extent it can, the SEC discourages companies from going public too soon in the interest of protecting investors.

The SEC in particular does not like what it calls "blank check" companies, defined as "a development stage company that has no specific business plan or purpose or has indicated its business plan is to engage in a merger or acquisition with an unidentified company or companies, other entity, or person." If a blank check company wishes to do a public offering, the SEC usually places extra requirements on it that it does not normally require of companies wishing to do an IPO.

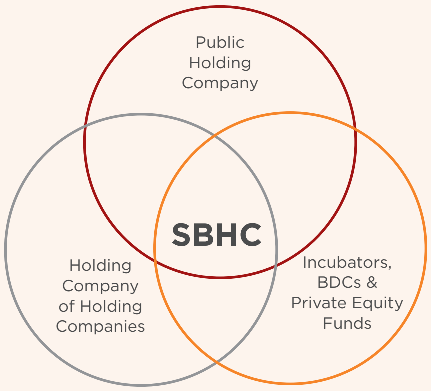
Thus organizers of a potential future public SBHC would typically need to establish the business of the SBHC first and assemble a number of subsidiaries under it to serve as the foundation for becoming a public company.

However, those wishing to establish an SBHC need not be concerned with having to walk that path too early. Once CC is public, it will be in a position to nurture other future public SBHCs so they can postpone that effort, as described below.

Once fully operating, CC can be likened to a miniature version of Berkshire Hathaway that not only invests in small companies, but can wholly own them, and in turn also own other holding companies that have their own subsidiaries.

Once CC is a public company listed on a stock exchange, CC's investors will have freely tradable stock, eliminating the problem of illiquid investments in small, private companies.

CC will use the funds it raises from the public to support small, private companies. In the process, it will help make those businesses more successful, which in turn nurtures and supports their local communities, thus fulfilling CC's larger public benefit purpose. (*Continued on page 7*)



SBHCs are a combination public holding company, virtual incubator, Business Development Company (BDC), private equity fund, and the holding company equivalent to a fund-of-funds.

- We have developed such a vehicle by blending several types of organizations into one entity that we call a public Small Business Holding Company (SBHC).

- An SBHC is built on the legal framework of a public holding company, similar to Berkshire Hathaway. But such companies are rarely used to address the needs of small businesses, normally focusing on owning and holding larger companies that don't need much outside support.

- An SBHC is a public holding company like Berkshire, only it focuses on small, private businesses rather than the larger ones favored by Berkshire and others. Such smaller businesses often need a good deal more outside help and resources than do larger companies, and thus require a different kind of holding company, one that is designed to provide that more comprehensive support.

- We start with the assumption that small businesses need both capital and the full spectrum of support services found in the best run business incubators and accelerators. This could include but is not limited to: general management consulting, marketing and public relations, web development, HR management, organizational development and legal; along with a host of shared services like insurance, payroll, accounting, etc. Think of a full spectrum incubator with a comprehensive investment fund that provides funding for all stages of small business: seed, growth, mature and buyout funding.

- Lastly, the numbers of small businesses that need such comprehensive support is so vast and diffuse that addressing them with one centralized organization is unfeasible. What is needed is a tiered structure that spreads this organization over many smaller entities that we call Virtual Holding Companies (VHCs), each associated with a targeted group that is geographically, industry or ownership focused (e.g. women, minority or veteran owned businesses). In essence they represent an "affinity" group of companies. Thus our SBHC would be a holding company of holding companies in a fashion somewhat analogous to a fund of funds investment entity.

- A key feature of SBHCs is that they will generally be public, not private, companies. That means that not only can anybody invest in them, but unlike private equity funds (angel funds, VCs and P/Es) that can only realize a gain by selling a portfolio company or having it go public, SBHCs never have to sell a single company to realize gains for their investors.

- Investors buy publicly tradable shares in the SBHC, which invests their funds in the small companies. Not only that, but investors can potentially direct their funds to specific companies..

(*Continued from page 5*) In other words, investors will invest in CC when it is a public company, and CC will invest their money in private companies, thereby resolving a hereto irresolvable dilemma – how to invest in small private companies but retain the liquidity that comes with investing in large public companies.

Not only that, but it can also incubate other future SBHCs that will invest in and own their own private companies.

INCUBATING SBHCs

While most public holding companies focus on investing in or acquiring companies (called "portfolio companies") as their primary business model, that model simply builds one holding company. However, the goal of the founders of CC is to promote the use of many SBHCs rather than just supporting individual portfolio companies under one SBHC.

Therefore, CC has been designed to help launch and grow many other companies that will become registered SBHCs in their own right. CC's primary purpose is to "incubate" these future SBHCs until they are capable of existing independently. We call them Virtual Holding Companies or VHCs (see box). Each VHC will have its own portfolio companies.

Some will serve a group of businesses within a particular geographic area while others may be focused on a specific industry such as renewable energy or health care. Some may also target groups such as women, minority or veteran-owned businesses. Others will focus on businesses at a certain point in their life cycle such as startups, growth companies and mature companies.

This incubation process is done by first setting up wholly owned subsidiaries under CC, each of which will become the corporate foundation for a future standalone SBHC. Each of those SBHC subsidiaries will be formed as a benefit corporation.

Think of Commonwealth Capital as a "holding company of holding companies" in the form of a small business holding company composed of smaller virtual holding companies (the VHCs). Each VHC will be set up as a mini holding company (a benefit corporation in its own right) under CC.

HOW CC WILL INCUBATE FUTURE SBHCs.

1. CC sets up a wholly owned, benefit corporation subsidiary, the corporate foundation for a future independent SBHC. We call those incubated entities Virtual Holding Companies (VHCs).

2. Each VHC acts as though it were an independent SBHC company, seeking capital to invest in or buy small businesses (collectively "portfolio companies"), in its target sector.

3. When a VHC and its portfolio companies are big enough to survive as an independent public company, they will be spun out as a block. This new SBHC then begins its independent existence.

INCUBATION +

All VHCs will be established by Inari Partners LLC ("Inari"), which will recruit managers to help manage the investment advisory and portfolio management services provided by Inari to CC. Those parties will contract with Inari Partners, the external manager of CC, as sub-advisors to manage those VHCs, as described below.

MANAGEMENT OF CC

SIMILAR TO A PRIVATE VENTURE CAPITAL FIRM, CC WILL BE MANAGED BY AN EXTERNAL MANAGEMENT COMPANY, INARI PARTNERS.

There are two management contracts between CC and Inari that spell out Inari's rights and responsibilities in fulfilling its management services, including compensation arrangements.

1. One calls for Inari to provide fundraising, investment advisory and portfolio management services on behalf of CC.
2. The other calls for Inari to provide CC with a wide spectrum of general administrative services roughly equivalent to those normally provided by officers inside a corporation.

Both contracts allow Inari to assign portions of those rights, responsibilities and compensation to other entities, as defined in conjunction with VHCs below.

Once a VHC has been established and begins to acquire its own portfolio companies, further oversight and management of both the VHCs and their portfolio companies will become the responsibility of Commonwealth Group LLC (CG), a wholly owned subsidiary of Commonwealth Capital that was the founder of Commonwealth Capital and now serves as the "internal manager" of CC and all its portfolio companies.

Those services include, but are not limited to: general management consulting; marketing and public relations; web development; HR management; organizational development; accounting; legal; insurance and payroll. In addition, CG is responsible for ensuring that each entity in the CC family is fully versed in, and applying triple bottom line concepts that include financial, social and environmental dimensions.

CC SUPPORT GROUP

CG is tasked with optimizing the health and success of all of CC's holdings, including assembling and coordinating a group of internal and external companies known as the CC Support Group, providing a spectrum of support services to the entire CC enterprise.

HOW VIRTUAL SBHCs WORK

BUILDING UP EQUITY

Raising cash (usually through the sale of stock) and using it to make investments and/or acquisitions takes time. And it is not the only way to build up an investment portfolio, whether in an SBHC or other entity that can own whole or partial interest in many companies.

We will show a number of other ways in which equity can be built up in an SBHC like CC, in some cases easier and faster than a generic fundraising/ investment process.

This should be of particular interest to prospective VHC managers and facilitators (defined on page 15), whose compensation will be directly impacted by how soon they can help CC obtain ownership in a number of small, private companies.

RAISING CAPITAL

A key benefit to establishing this SBHC holding company of holding companies is that instead of raising capital directly into each individual (small) VHC, investors will invest in the parent company and get CC stock. And as with any public company, CC will have the option to sell shares both publicly (IPO and follow-on public offerings) and privately.

CC can direct private investments to the VHC of choice for the investor (we call them directed investments) and can, to a certain extent, do the same for public offerings.

Every investor will own shares in CC, a hopefully rapidly growing public company, even though their money may be directed to smaller holding companies (VHCs) and individual companies under CC.

Private transactions will likely be arranged between CC and company owners and institutional investors interested in supporting particular projects represented by VHCs.

Transactions could be in the form of convertible notes, cash investments for stock in CC or in the form of equity exchanges (i.e., stock in other companies used to pay for stock in CC), as described below.

STOCK AS CURRENCY

CC will also allow VHCs the option to use CC's stock as currency to make investments and acquisitions. Thus a company's owners can exchange ownership in their company for shares in CC, likely when it is a public company. This bypasses the need to raise cash from investors that will then be converted into the equity of acquired companies.

This can be particularly attractive as a way to rapidly launch a VHC, especially by fund managers or facilitators. For example, there is a large and growing crop of mature small businesses for sale because their owners want to retire. They are already flooding the market and many are just being shut down for lack of a buyer.

A VHC could aggregate a number of such businesses when the owners accept stock in CC in exchange for ownership of their business. Over time that stock may grow in value to be worth more than the seller might have received in cash. This document explores that concept.

WORKING WITH INSITUTIONAL INVESTORS

1. OBTAINING EQUITY IN PORTFOLIO COMPANIES

Institutional investors ranging from angel investors (both individuals and groups), VCs, private equity funds, pension funds, corporations, family funds and others share a common problem – how to exit from their investments in small, private companies (a liquidity event), ideally with a profit.

Attractive exits used to occur when the private company grew to the point of becoming a public company. Investors could then profitably sell their equity in the open stock market. However, IPOs nowadays are rare and the only way investors usually can realize a return (let alone a profit) is when those portfolio companies are bought out via mergers or acquisitions.

Private trading platforms help fill the void.

Recent years have seen the evolution of private trading platforms (like private stock exchanges) where restricted stock in private companies can be bought and sold by the platform's participants (usually only accredited investors). However, companies listed are usually valued at private company valuations and such platforms rarely provide public company multiples for their listed companies. That is where CC can provide an attractive alternative to private trading platforms.

CC plans to be a publicly traded company with a valuation that increasingly reflects its public company status and rapidly growing market cap. Public companies are nearly universally valued higher (sometimes substantially higher) than their private company counterparts. Institutional investors will be able to trade their equity in their private company portfolio holdings for shares in CC.

Those shares will be immediately tradable in the open market if CC uses its SEC registered (IPO) shares to do a "stock swap" with the current equity holders of the target company.

If CC uses restricted stock in a private placement transaction (Regulation D), then the parties exchanging their stock should be able to freely sell that stock no later than six months after the transaction (under Rule 144), subject to CC being an SEC reporting company.

> CC public stockholders can liquidate their holdings at just about any time.

Thus the party receiving publicly tradable CC stock will be able to liquidate all or a portion of their subsequent holdings just about any time without having to be concerned about the underlying company having to be sold in order to establish a liquidity event.

Once CC is public, no company owned in whole or part will ever have to be sold in order for CC's investors to realize liquidity —thus overcoming the problem of how to hold investments in private small companies yet maintain the liquidity of holdings in a typical Wall Street public company.

WORKING WITH INSITUTIONAL INVESTORS

2. NEW INVESTMENTS PROCESSED THROUGH CC

There is one other way that Inari Partners, VHC managers and facilitators can provide institutional investors with a unique investment mechanism that is superior to just about any current option.

Let's say that an investor has done the necessary due diligence on a particular investment and has agreed to investment terms. What if they could make that investment through a publicly traded SBHC instead of directly with the small company (i.e., the investor invests in CC and CC invests, under the same terms, that money in the target company)?

THE INVESTOR BENEFITS

- The investor would have immediate liquidity if they receive SEC registered shares or after six months for shares purchased in a private placement, without having to sell their interest in the underlying small business.
- The small company would still get the investment, but with an organization that could provide follow-on investments without having to be concerned with an exit.
- The company would also benefit from the other support services provided by CC (CC will make available managerial assistance to all its investees through Commonwealth Group. CC will make that a requirement of any investment).

THE SBHC BENEFITS

- It has a readymade source of funds for an investment candidate that has already been vetted.
- It will realize an increase in its book value over the actual amount of the investment (called multiple accretion, described below).
- It can ensure that the company receiving the investment incorporates ESG (environmental, social and governance) factors into its business, in fulfillment of CC's benefit corporation mandates.
- Each VHC will operate similar to a mini holding company, but will do more than just invest in its targeted companies. It may negotiate to wholly acquire those companies or arrange to obtain equity through other means than simply investments of cash.

MANAGEMENT OF VIRTUAL HCs

As noted, Inari will be responsible for establishing all the VHCs as wholly owned subsidiaries under CC and managing them as though they were standalone SBHCs. The two management contracts between CC and Inari allow Inari to establish those subsidiaries, manage them operationally and perform the related investment advisory management services. Those contracts also allow Inari to subcontract all or a portion of those functions to other parties.

Since each VHC will be set up to operate like a standalone mini holding company, Inari will engage individuals ("Sub-Advisors") who would like to serve as subcontractor advisors. They will enter into a sub-advisory contract ("Sub-Advisory Agreement") with Inari to provide fundraising, investment advisory and portfolio management services on behalf of a particular VHC. That party or parties will likely form an LLC to enter into the Sub-Advisory Agreement with Inari and CC.

The Sub-Advisory Agreement will define the rights and responsibilities of the parties, which are derived from the master external fundraising, investment advisory and portfolio management agreement that Inari has with CC. Elements of that master agreement are allocated in part to a particular VHC and to its external investment advisory management firm. Generally those terms will follow the terms defined below.

- Inari may also enter into a separate sub-contract agreement with that firm to provide certain administrative functions on behalf of the VHC and its portfolio companies. That subcontract would derive from the Administrative Agreement that Inari has with CC. Each "administrative" sub-contract will be customized to the needs of that particular VHC. The compensation and other terms between Inari, CC and those sub-administrators will be determined on a case by case basis.

- When and if the VHC, with its portfolio companies, is to be spun out as a freestanding SBHC, Inari will first establish two new master management agreements between the VHC corporation and Inari that will closely resemble the master agreements that Inari has with CC. Inari will then prepare a registration statement to convert that VHC into a freestanding public SBHC, and once approved, initiate its IPO and launch it as an independent public company.

- The external management company will likely continue to manage fundraising, investment advisory and portfolio management services for the new SBHC, in a fashion analogous to the role that it performed while the VHC was still a subsidiary under CC.

RESPONSIBILITIES OF DEDICATED VHC INVESTMENT ADVISORS

1. Raising funds for that VHC (via directed investments in CC – see page 9 for an explanation of the directed investment process) to be used to invest in, lend to and/or purchase targeted small and mid-sized companies.

2. Locating independent companies and companies held in an investment portfolio (VC, angel fund, P/E fund, institutional investor, etc.) that can be acquired in whole or part in exchange for CC stock, or other terms acceptable to CC.

3. Locating candidate portfolio companies to receive investments or outright acquisition with the funds raised or using CC stock.

4. Identifying investors (preferably institutional investors) who already invest in companies that fit the profile of candidate portfolio companies and negotiate to run their new investments through CC (same terms already negotiated) for companies that the investors:

- Have already identified.
- Have completed due diligence.
- Have negotiated terms that the CC, Inari and the VHC management team determine are acceptable.

VHC MANAGEMENT COMPENSATION

In exchange for performing fundraising, investment advisory and portfolio management functions, the VHC managers will receive compensation for the assets under management (AUM) of their particular VHC.

- Managers will be compensated based on the AUM for their particular VHC, i.e., the holdings in its portfolio companies.
- Equity in VHC portfolio companies will be realized from cash investments in the VHC through CC, and through exchanges of equity in CC for equity in the companies that will become VHC portfolio companies.
- It is anticipated that most assets so acquired will be managed to 2/10 compensation formula similar to that practiced by most VC, P/E and hedge fund managers.
    - • That is, 2% of the AUM for a VHC will be allocated as an annual management fee ("Fee") to be distributed prorata at least annually and perhaps quarterly or monthly.
    - That Fee allocation will be split between Inari and the VHC management team per the management contract.
- In addition, a 10%[1] incentive compensation profit sharing ("Profit" or "Carry") allocation will be apportioned to that VHC, based on capital gains appreciation returned by that VHC's portfolio companies. That allocation will likewise be split between Inari and the management team per contract.
- Unlike many limited partnerships which normally cannot pay an incentive Carry until the partnership realizes a capital gain liquidity event (i.e., they sell the portfolio companies and liquidate the limited partnership), an SBHC can have ongoing profits and capital gains that are both realized and unrealized.
- Both of those conditions can trigger the incentive Carry compensation to Inari and the managers. In particular, capital appreciation can be both realized (e.g., the company is sold) or unrealized (e.g., purchase at $10 million and booked at $15 million = unrealized capital gain of $5 million), and both conditions can warrant an incentive Carry calculation and compensation to Inari and the managers.
- If the VHC is an in-house project of CC and Inari (does not include any outside parties), then all the compensation realized by that particular VHC will flow to Inari and its members. Managers hired by CC and Inari to run a particular VHC management company and its associated VHC investment portfolio may share in a portion of those funds, after they are distributed to Inari.

Inari's contract actually provides for a 15% capital gains carry, but 1/3 of that amount – i.e. 5% - will be donated to charity and thus the net to Inari and its sub-advisers is 10%.

COMPENSATION SPLITS

For fundraising, finding portfolio companies & overseeing portfolios

VHC third-party management partners will be expected to raise the majority of the private placement capital for their particular VHC, locate, vet and successfully negotiate for prospective portfolio companies (to invest in or wholly acquire) and/or to successfully negotiate for equity swaps.

Raising funds in CC, either through private placement or a public offering, certainly increases the market cap for CC, but does not by itself increase the price per share (more shares get issued for the capital, but at the same price per share as before the investment).

Value growth for CC and its VHCs only occurs when a company is brought into its portfolio and those holdings appreciate in value either because the business of the company grew or the company value appreciated by virtue of multiple accretion (described below).

Thus raising money is a valuable part of the process, but is not complete until those funds are converted into equity in a portfolio company.

Likewise finding and vetting a prospective company does not by itself translate to an increase in value to CC. Nonetheless it increases the prospects that CC will raise funds that result in holdings as compared with a general, non-specific fundraising effort.

- If a VHC is formed and Inari contracts with third party sub-advisors, the compensation realized by that VHC investment advisory management group will be divided as follows:

FACILITATORS

We anticipate that not all individuals interested in our VHC program will want to set up their own VHC and fund management company.

Some may prefer to work with Inari or with VHC third-party management groups to simply help raise funds or to recruit portfolio companies.

Called facilitators, these individuals can share in the compensation realized by raising funds and delivering potential portfolio companies.

RECRUITERS

Recruiters will assist Inari in recruiting sub-advisors and facilitators. Their compensation is not covered in this document. Anyone interested in being a recruiter should contact Inari.

- Inari Partners will split Fees and Carry compensation with its independent VHC management partners on an agreed to basis. Normally the VHC sub-advisor will receive 1/3 of the fees and carried interest derived from the portfolio companies under that VHC. That same percentage will likely continue once the VHC is spun out as independent public company (see below).

- In addition, that 2/10 formula may be different for certain VHC investments and/ or acquisitions (based on unique conditions including agreements with investor(s) that differ from the default compensation arrangement), and the split between Inari and those partners would be adjusted accordingly.

FEE SPLITTING ALLOCATIONS

Small businesses are the backbone of every local economy. The more they are supported, especially with financial and management resources, the more they can contribute to the health and vitality of their communities.

> Small Business Holding Companies are uniquely equipped to support small businesses better than any other mechanism, including conventional venture capital, angel investments and crowdfunding.

Therefore, Commonwealth Capital has been structured to not only directly support its own portfolio of businesses with investments and acquisitions, but to facilitate the establishment of many other SBHCs to pursue the same objectives.

Thus Inari, as the fund manager for Commonwealth Capital, has architected a system to encourage the creation of other SBHCs (initially as VHCs under CC).

The fee splitting compensation structure for the sub-advisor manager partners of those future SBHCs is designed to motivate them to launch and grow those entities and their portfolios of companies as broadly as possible.

Compensation, in the form of fees and carried interest, occurs once an entity becomes a portfolio company within the Commonwealth Capital hierarchy of companies. Inari earns that compensation under a master agreement with CC. The agreement provides for Inari to share portions with other parties, including both VHC partners and facilitators, for their efforts related to obtaining particular portfolio companies.

A business becomes a portfolio company (AUM – assets under management) via two primary means:

1. CC uses cash to invest in or acquire a portfolio company.

CC obtains cash through investors purchasing stock, through loans to CC or through profit made internally. VHC fund managers will be responsible for helping to raise money for their VHC and portfolio companies. CC and/or facilitators may also augment their fundraising efforts. If facilitators assist with fundraising, they will earn a portion of the fees and carried interest resulting from investments/acquisitions done with the funds they raise (see below).

2. CC uses its stock as the currency instead of cash, for all or a portion of an investment in a portfolio company.

CC stock can be used to obtain equity in portfolio companies, one step compared to the previous two-step process (1: Get cash. 2: Use it to purchase equity in portfolio companies). If facilitators assist in arranging a stock-for-equity swap, they will earn a portion of the fees and carried interest resulting from investments/acquisitions done in that manner (see below).

WE BEGIN WITH THE ASSUMPTION THAT ANY JOINT EFFORT BETWEEN INARI AND ITS VHC SUB-ADVISOR PARTNERS SHOULD BE PROPORTIONATE TO EACH PARTY'S CONTRIBUTION.

HOW COMPENSATION IS SPLIT AMONG PARTICIPANTS

- Inari is responsible for the entire organization, including the administration of CC; promotion and marketing; establishment of all the VHCs; all the fundraising systems and legal structure; public offerings; compliance, audits and public reporting for both SEC purposes and benefit corporation purposes; recruiting, training and oversight of the sub-advisors; management support to all the portfolio companies and more.
- Sub-advisors need only focus on helping to raise funds locally, negotiate with local investors and equity owners for stock swaps and evaluate, select and manage investments in portfolio companies for their particular VHC.

This means that the 2/10 fees and carried interest allocated to each individual VHC portfolio company will be divided 2/3 -1/3 between Inari and its VHC sub-advisor partner(s) (after any compensation that might be paid to facilitators as described on page 16). That 2/10 compensation is paid by CC to Inari, which in turn will share with the corresponding VHC partner(s) and facilitators.

Inari may arrange, at its discretion, to have CC pay the VHC partners directly for their portion of the compensation.

COMPENSATION TO FACILITATORS

Facilitators may support sub-advisers and their VHCs and/or Inari and CC directly. Once Inari has accepted an applicant, Inari will enter into an agreement that spells out the terms of the facilitator's relationship with Inari, including compensation for services. Facilitators providing support to a sub-adviser will enter into an agreement with each sub-adviser that spells out the terms of their relationship with that sub-adviser and their VHC, including compensation for services.

Facilitators can share a portion of that compensation by assisting Inari and/or VHC fund managers in obtaining portfolio companies. They can do so by one of three means.

1. **Raise funds on behalf of CC and/or a specific VHC or their respective portfolio companies.**

A facilitator who successfully raises an investment in CC (either through the direct sale of CC stock or a convertible note), will have earned compensation equal to 10% of the total compensation that will be derived by Inari for that cash and any investments and/ or acquisitions that result from the use of the investment, when and only when those funds have been placed in a portfolio company, and for a maximum period of three years from the date of the investment.

2. **Find, vet and successfully negotiate with a business to use CC cash to invest in or acquire a company.**

If the facilitator successfully finds, vets and successfully negotiates with a business to use CC cash to either invest in that company or acquire it, and that investment or acquisition is completed and the company becomes a CC portfolio company, then the facilitator will have earned compensation equal to 5% of the total compensation that will be derived by Inari for any such investments and/or acquisitions, for a maximum of three years from the date of the investment..

3. **Find, vet and successfully negotiate with owners in a business (shareholders, partners, members, etc.,) to exchange their holdings in whole or part for stock in CC.**

If the facilitator successfully finds, vets and successfully negotiates with business owners to exchange their holdings (in whole or part) for stock in CC, and that stock swap is completed and the company becomes a CC portfolio company, then the facilitator will have earned compensation equal to 15% the total compensation derived by Inari for any such investments and/or acquisitions.

If the facilitator arranges any of the above on behalf of a particular VHC and/or its portfolio companies, he or she will be compensated out of the 1/3 distribution made to the sub-adviser and the balance of the 1/3 will be retained by the sub-advisor management company.

If the facilitator arranges any of the above on behalf of a Inari and CC and/or its portfolio companies, he or she will be compensated by Inari per the terms above and the balance retained by Inari. After the three years compensation period for the facilitators, all remaining compensation corresponding to a portfolio company brought in by the facilitator will be retained by Inari, or the sub-advisor if the company is associated with a VHC.

EXAMPLE VHC & COMPENSATION TO THIRD-PARTY MANAGERS & FACILITATORS

To illustrate, we begin with a VHC fund with independent third-party sub-advisor managers that starts with $10 million in cash or stock in partially owned or wholly owned portfolio companies.

From time to time Inari may elect to work (under contracts to be defined) directly with its own facilitators who wish to participate in recruiting companies, fundraising or helping recruit mergers and acquisitions candidate companies (stock swaps). If they help to bring in companies, capital or equity swaps directly into CC (not associated with a particular VHC at the time of the transaction) or into an internal VHC (with no third-party management team), they will likely receive 10%, 5% or 15% respectively of the total compensation allocated to Inari, per the above description.

❍ Fees will be paid for cash under management, in addition to equity holdings, under the CC/Inari investment advisory master agreement. For convenience, we will assume here that all cash investments in the VHC have been invested in its portfolio companies, such that its assets under management (AUM) are all in the form of equity in their portfolio companies.

❍ Further, where that equity was valued at, say, $10 million at the time of acquisition, it would be "booked" based on the public value of CC. So, for that $10 million cost, the company might be valued at $20 million - $30 million. That's because public companies are legally allowed to pay a private company value for their investment in a company, but book it at a public company valuation. This concept is called multiple accretion and is part of the conventional public versus private company valuation practice as described here.

❍ Let's say that the multiple accretion is 1.8X. That means that the original $10 million in acquisition costs would be booked at $18 million (it could easily be higher, but may be lower). That $18 million would then be the figure for calculating the AUM. On that premise, the 2% Fee would yield an annual compensation of $360,000 ($18 million x 2%) split 2/3 – 1/3. Thus the VHC independent sub-advisor partners would receive $120,000 annual compensation for their portion of the annual Fee for the AUM (less any up front deduction for facilitator compensation).

❍ If a facilitator brought in the companies that were invested in or acquired by CC, or brought in the capital used for such investments and acquisitions, they would receive 5% and 10% of the fees allocated to the VHC sub-advisor management company for each of those functions, for a total of 15%, the same amount that would be earned if the facilitator negotiated and completed a stock swap to affect the investment or acquisition, i.e., $54,000 annual compensation combined (up to three years) for the annual fee for the AUM in the above example. That would leave $66,000 for the VHC sub-advisor partner(s).

EXAMPLE VHC & COMPENSATION TO THIRD-PARTY MANAGERS & FACILITATORS (CONT.)

- The capital gains Carry however, should it be recognized as earned, could be substantially more. It could be calculated based on the unrealized capital gain of $8 million for the whole portfolio ($10 million > $18 million = $8 million capital gain, i.e., unrealized profit).

- At 10% Carry, that equals a $0.8 million incentive compensation. Split 2/3 - 1/3 with Inari, that means the VHC independent partners could receive an additional $266,667 on top of their $120,000 annual fee if no facilitators contributed to the funding or acquisition of that portfolio company.

- That $0.8 million would be shared with facilitators, if they brought in and managed the investment in the companies (5%) and/or brought in the capital for them (10%) or negotiated the stock swap or performed both of the previous functions (15%).

- This incentive fee would in all likelihood be determined at least one quarter after the gain has been recognized (giving it time to stabilize), and paid sometime thereafter in cash and/or CC stock.

Thus a two-year compensation total could viably be $266,667 plus 2 X $120,000 for a total of $506,667, or average of $253,333.5 per year for a portfolio that started out at $10 million, if there were no facilitator as part of the investment.

There are many nuances to this compensation structure and this document can only provide an outline.

BECOMING A PORTFOLIO MANAGER OR FACILITATOR

Every entrepreneur is a first time entrepreneur at some point. The same goes for portfolio managers. But access to that exclusive club is normally a lot harder than becoming a first-time entrepreneur.

We think that it does not have to be that way, that becoming a portfolio manager need not be open primarily to privileged white males. We believe that it takes the same kind of skills, drive and knowledge about small business to be a successful portfolio manager as to be a successful entrepreneur. That is especially true for women, minorities and others from economically disadvantaged backgrounds.

The key is mentoring and guidance by experienced entrepreneurs. One of the most successful structured environments in which mentoring occurs is in business incubators. A properly run and fully featured incubator can provide a spectrum of support services and resources that assists the entrepreneur and their company to successfully execute on their business plan.

More importantly, there is typically a spectrum of experienced entrepreneur talent available that can provide mentoring in such things as business strategy, marketing and business systems.

We have adapted the incubation model to portfolio management, in particular under the framework of an SBHC.

MENTORING PORTFOLIO MANAGERS & FACILITATORS

If you have dreamed of getting into venture capital or setting up a crowdfunding portal, CC can help you achieve your goals. We do so in a structured environment that lets you wade into the shallow end of the fundraising and portfolio management pool and migrate to the deep end when you are ready.

Candidate VHC portfolio managers need to demonstrate that they can perform the four key functions defined on page 13, particularly by having already raised private placement funds for their own or another company. In addition they must demonstrate a reasonable understanding of small business and entrepreneurship. Assuming that, then:

1. Candidates will undergo a vetting process similar to what well run incubators use in evaluating prospective incubator client companies and their founders.

2. In addition to evaluating the applicant's competence, there are certain ethical standards that Inari and CC will insist on to conform to CC's benefit corporation status. Applicants must agree to abide by those standards or they will not be accepted into our program.

3. The final hurdle for applicants concerns compliance. Managers of externally managed SBHCs may be required to become Registered Investment Advisors (RIAs) either registered with the SEC or a state. If Inari is required to become an RIA, Inari will likewise require the applicant to become an SEC or state registered RIA..

4. That process starts with the applicant submitting an application with the SEC and getting approval. If state approval is required, the applicant will normally be required to pass the Series 65 Exam or obtain a waiver because of other experience or certifications

5. Once the applicant is accepted into the program, they will be provided with the preliminary training and tools for assembling their VHC sub-advisor management team and how to recruit investors and candidate portfolio companies (both VHC sub-advisor managers and facilitators).

6. The prospective VHC managers will be given a certain amount of time to assemble their initial investors and company portfolio, with a target minimum value of $5 million in cash investment and/or equity in the portfolio companies (via a stock swap). Facilitators will not have a threshold, provided they abide by the profile established for the companies that CC will invest in and any other criteria established by CC and Inari.

If you are interested in potentially setting up a VHC (see the Appendix for acceptable VHC categories) and becoming a VHC manager or a facilitator, please contact:

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*************** NOTICE ***************

THE INFORMATION CONTAINED IN THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO PURCHASE SECURITIES

This document includes “forward-looking statements” within the meaning of the federal securities laws that involve risks and uncertainties. Forward-looking statements include statements we make concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs and other information that is not historical information. When used in this document, the words “estimates,” “expects,” “anticipates,” “projects,” “forecasts,” “plans,” “intends,” “believes,” “foresees,” “seeks,” “likely,” “may,” “might,” “will,” “should,” “goal,” “target” or “intends” and variations of these words or similar expressions (or the negative versions of any such words) are intended to identify forward-looking statements. All forward-looking statements are based upon information available to us on the date of this document. These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of our control, that could cause actual results to differ materially from the results discussed in the forward-looking statements. Some of the factors that we believe could affect our results include:

- limitations on our ability to continue operations and implement our business plan;
- our history of operating losses;
- the timing of and our ability to obtain financing on acceptable terms; Ð the effects of changing economic conditions;
- the loss of members of the management team or other key personnel;
- competition from larger, more established companies with greater economic resources than we have;
- costs and other effects of legal and administrative proceedings, settlements, investigations and claims, which may not be covered by insurance; Ð costs and damages relating to pending and future litigation;
- the impact of additional legal and regulatory interpretations and rulemaking and our success in taking action to mitigate such impacts;
- control by our principal equity holders; and
- the other factors set forth herein.

There are likely other factors that could cause our actual results to differ materially from the results referred to in the forward-looking statements. All forward-looking statements attributable to us in this document apply only as of the date of this document and are expressly qualified in their entirety by the cautionary statements included in this document. We undertake no obligation to publicly update or revise forward-looking statements to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events, except as required by law. You are advised to consult any further disclosures we may make on related subjects in the reports, when and if we file with the SEC pursuant to Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)

APPENDIX

Potential VHC Application Areas

The following industry sectors are acceptable to Commonwealth Capital (CC) and Inari Partners as candidate Virtual HCs under CC. Other areas will be entertained on a case-by-case basis.

- Women owned
- Minority owned
- Veteran owned
- Ethnic-centric
- Retiring business owners
- VHCs connected to incubators and accelerators, to provide a venture fund for their client companies
- Non-profit-owned
- Local foods and sustainable agriculture
- Portfolio companies in funds such as VC, P/E, angel, pension, foundations
- Union shops
- Cooperatives
- Businesses in lower income neighborhoods and businesses targeting poverty alleviation/job creation

VHCs by Inari Partners

In addition, Inari will form its own VHCs, primarily in the clean technology space. Cleantech represents a huge and pervasive group of companies that will have substantial impact on the environment and climate change.

Cleantech can be broadly divided into six sectors, which can be further divided into at least 22 discrete application areas that represent unique types of companies. Ultimately each of those 22 application areas could represent a category that would justify its own VHC.

Cleantech Sectors

- Environmentally friendly energy and energy storage
- Circular economy (recycling etc.)
- Sustainable water management
- Sustainable mobility (alternative fuels, transportation etc.)
- Resource and material efficiency
- Energy efficiency

The local food movement and sustainable agriculture represents another broad area that will be pursued by Inari and CC, along with other kinds of companies that have either formed a benefit corporations, are certified by B Labs as a B Corporation or are pursuing a double or triple bottom line mission.

ABOUT COMMONWEALTH CAPITAL

Commonwealth Capital (CC) is a California benefit corporation incorporated in California in 2015. CC's purpose is to nurture and support small and mid-sized businesses throughout the U.S. (and perhaps beyond) in order to enhance their value, the economic health, vitality and sustainability of the communities they serve, and their ability to develop innovative solutions to pressing global challenges.

CC was formed by Commonwealth Group, a consultancy that specializes in assisting impact investors to use the Small Business Holding Company (SBHC) model as a means of increasing the liquidity of investments in small and mid-sized businesses.

Commonwealth Capital
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