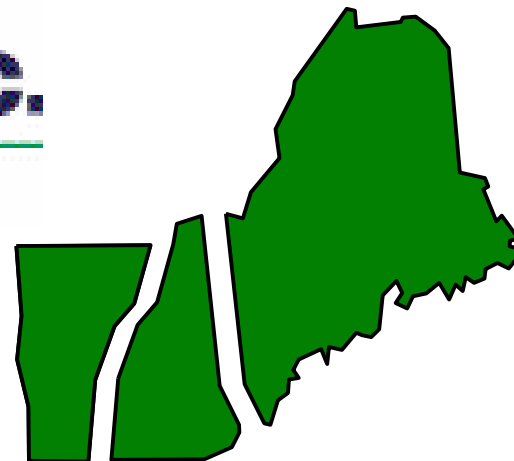


Sponsored by:

 **Banknorth Group, Inc.**

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PIERCE  
ATWOOD  
— LLP —



## Financing Growth

Rochester, NH

September 14, 2004

# Agenda

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- External Capital
  - Purposes and sources
  - Debt v. Equity
  - Venture capital process
- Government funding
  - SBIR Grants
- Near Equity
  - Vested for Growth
- Venture capital
  - Borealis Ventures
  - CEI Community Ventures

# Growth requires capital

## Operational capacity

- Management
- Sales and distribution
- Support and service
- Administration

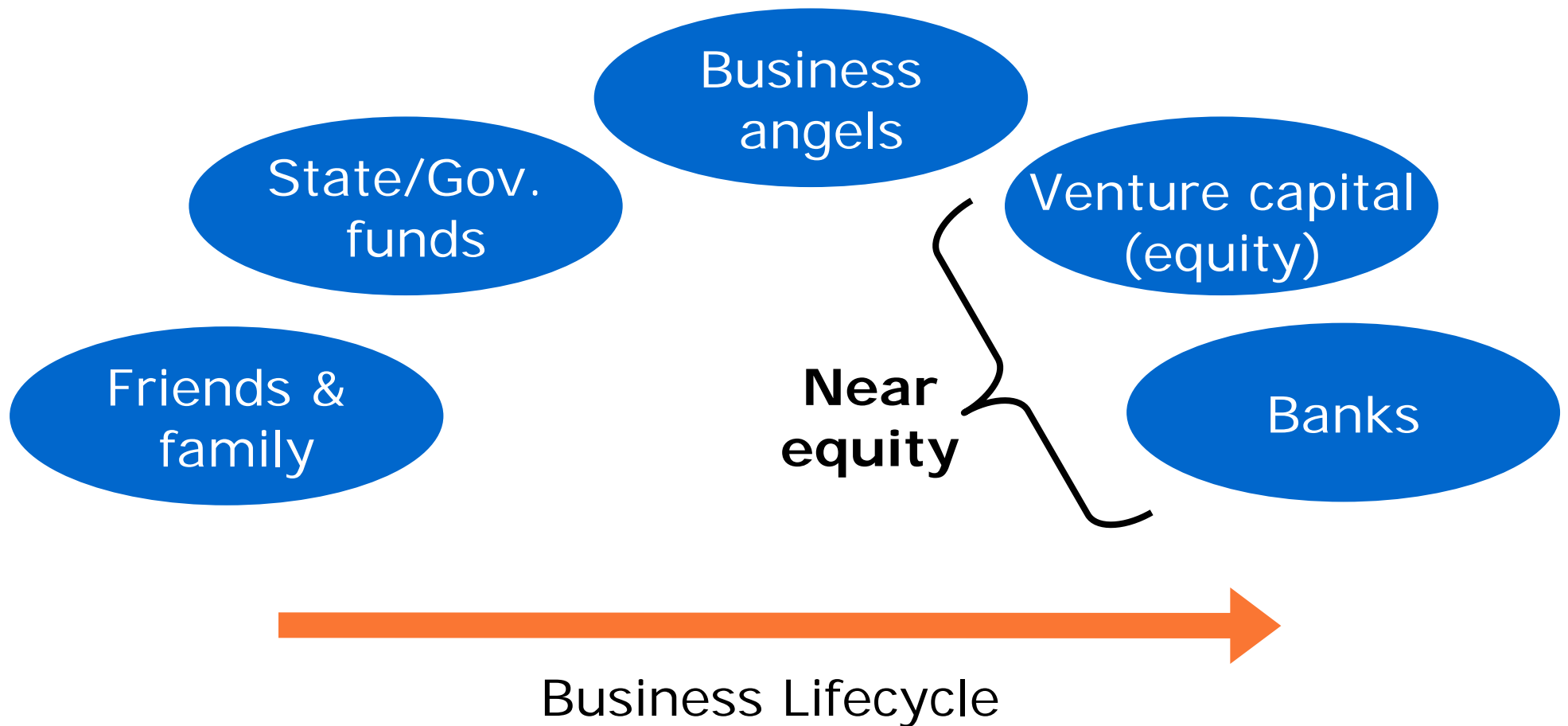
## Working capital needs

- Accounts receivables
- Inventory

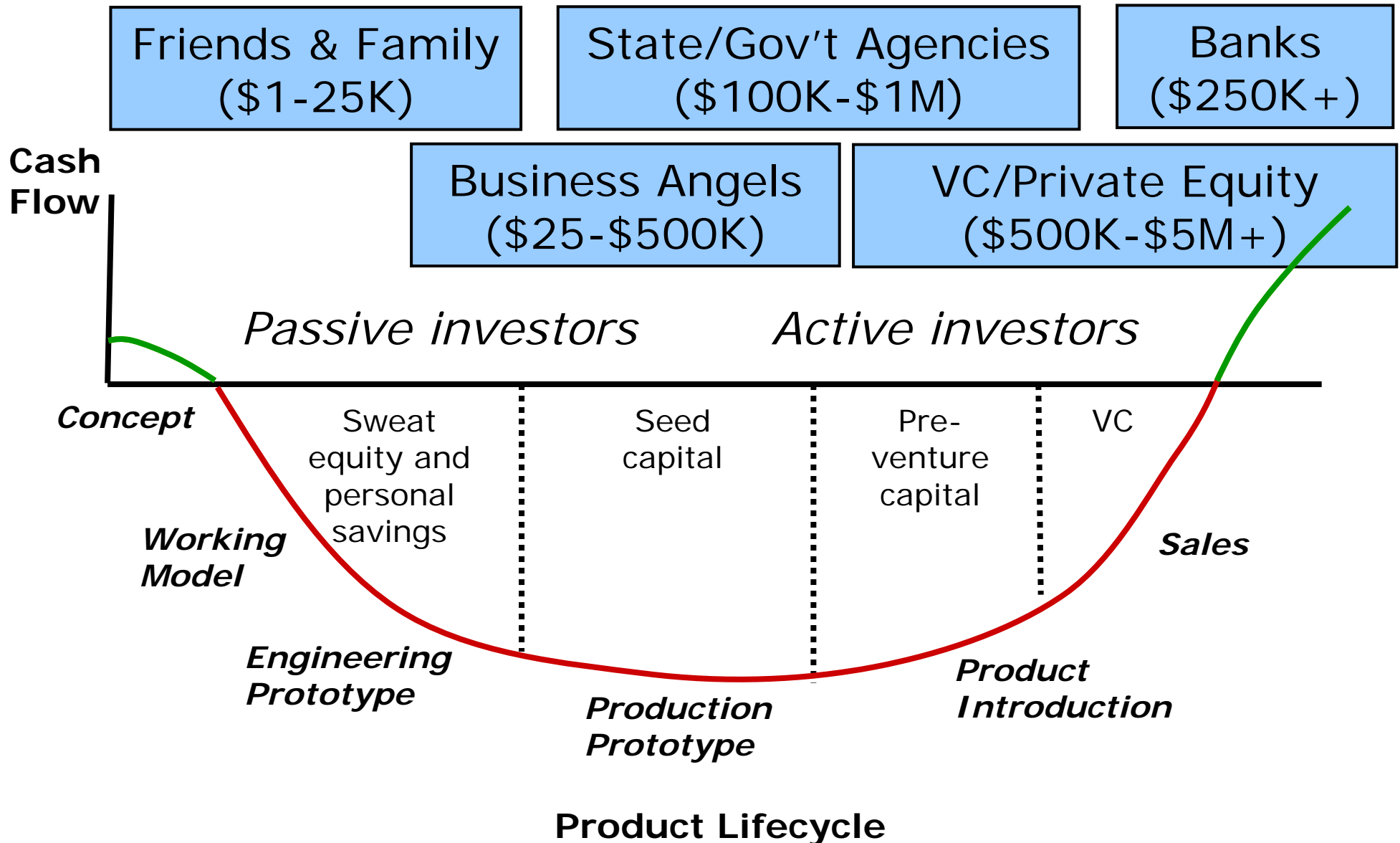
## Capital expansion

- Technology
- Equipment
- Leasehold improvements

Think about the sources of funding across the life of your business



# Capital sources vary according to where you are in the "Valley of Death"



# Debt vs. equity

## Debt

- Emphasis on collateral and cash flow to reduce risk
- Repayment starts after funding
- Return not based on company performance
- Lower risk for lender, higher for borrower
- Lower cost for borrower if business is successful
- No ownership dilution
- Supports short-medium term expansion
- Monitoring relationship
- Boilerplate issues and documents

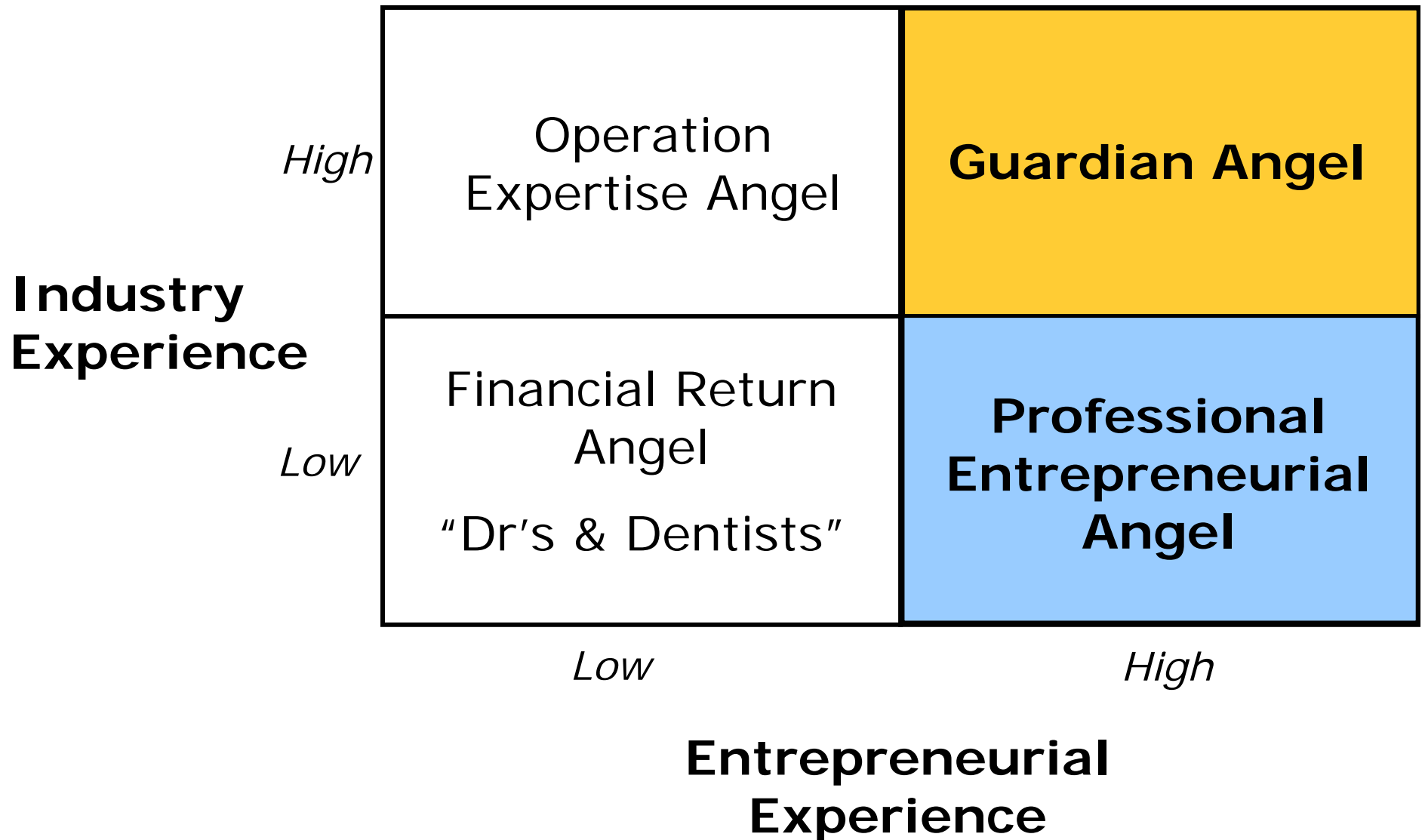
## Equity

- Emphasis on future opportunity and return on investment by assuming risk
- Deferred repayment
- Repayment dependent on company performance
- Higher risk for investor, lower risk for investee
- Higher cost if business is successful
- Ownership dilution
- Supports long term expansion
- Involved partner relationship
- Complex issues and documentation

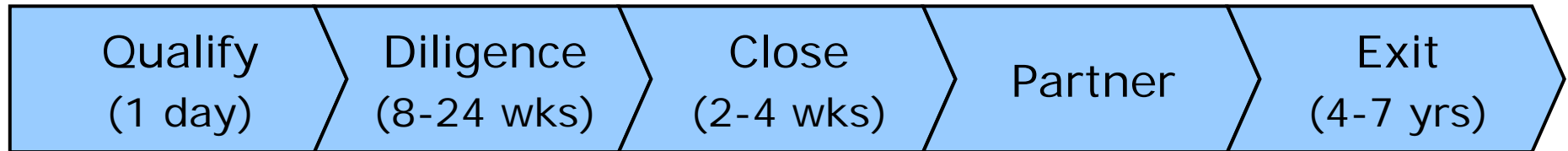
# The front line of equity investors: business angels

- Angels: wealthy individuals who make equity investments in companies, typically early-stage
  - Difficult to locate
  - Modest investments (\$10-100K)
- Sometimes individuals organized in groups
  - Larger investments
  - Periodic meetings; opportunities to present
  - New Hampshire has several
    - ▶ eCoast Angels (Portsmouth)
    - ▶ Breakfast Club (Nashua)
    - ▶ First Run Angels (N. Conway)
    - ▶ Granite State Angels (Grafton County)
- Quality of support and advice can vary

# Not all angels are the same



# The venture capital process involves several distinct stages



- Sector
- Story
- Management
- Margins
- Growth potential

- Management
- Market
- Competition
- Technology/  
Barrier to entry
- Strategy/  
plan

- Terms
- Legal/  
Accounting
- Investment

- Active partnership
- Board of Directors

- Sale/  
merger or  
IPO

# VCs assess your business' situation against the ideal

## Management

- Made money for investors
- Successful startup, ideally in same sector/space
- Complete team in core areas (sales, marketing, finance, etc)

## Market

- Large, fast growing with few competitors

## Product/ Tech.

- One-tenth cost or 10X performance of nearest competitors
- Proprietary position (barrier to entry such as established market position and/or intellectual property, patents)

## Business Model

- Scalable: make once, sell many times
- Appropriate for venture capital financing--no B2B business exchanges

## Financial

- Sustainable gross margins > 50%
- Limited financing risk (future rounds likely)
- No financial liabilities that affect value or equity position

## Legal

- No legal contracts that affect value or equity position
- No outstanding litigation around intellectual property or other assets

---

**Stage risk overlays weighted business risk: Later = lowest risk**



**Lowest Risk = Highest Valuation**

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# SBIR Support in New Hampshire

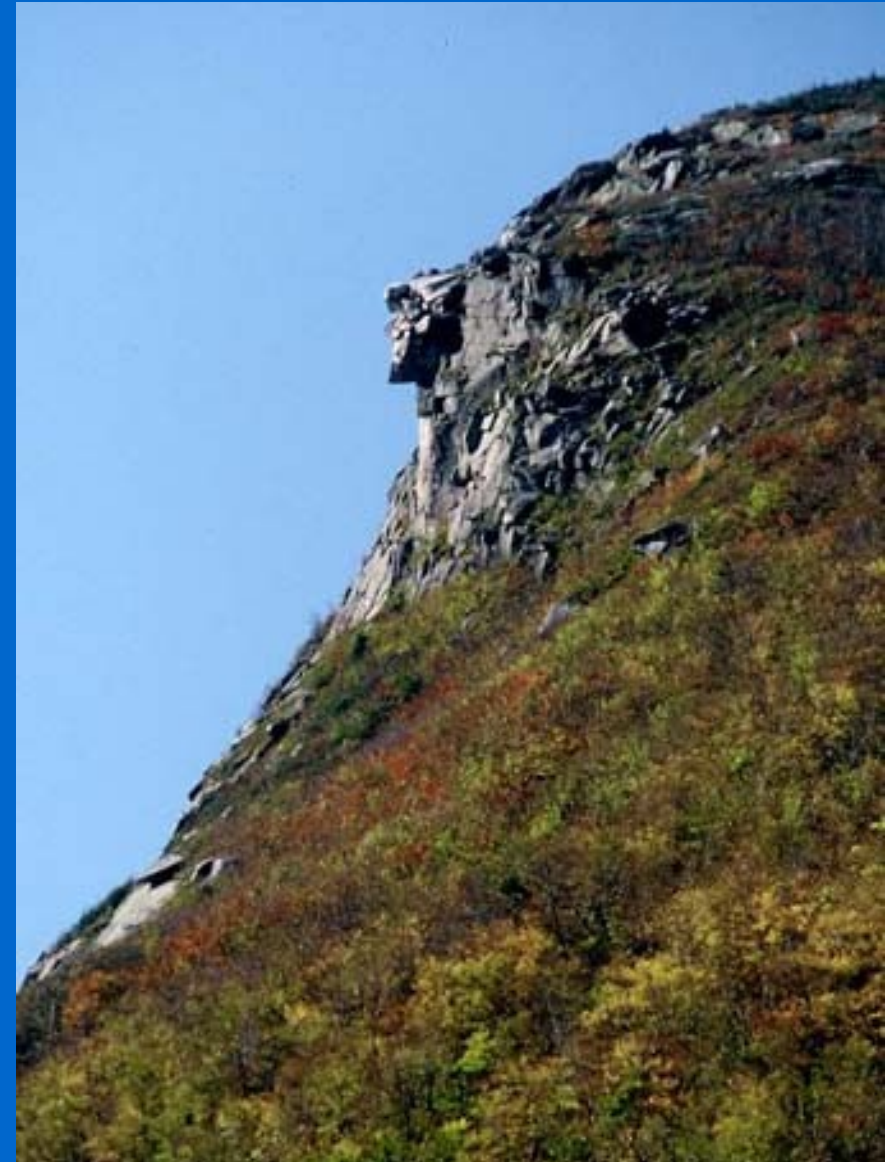


Mary E. Collins

Small Business Development Center  
Whittemore School of Business &  
Economics

862-2200

[www.nhsbdc.org](http://www.nhsbdc.org)



# NH SBDC

A National Partnership Program

Hosted by UNH & the  
Whittemore School of Business  
and Economics

A cooperative venture: US SBA;  
State of NH; University System  
of NH and the Private Sector



**SBIR**

**Small Business Innovation Research**

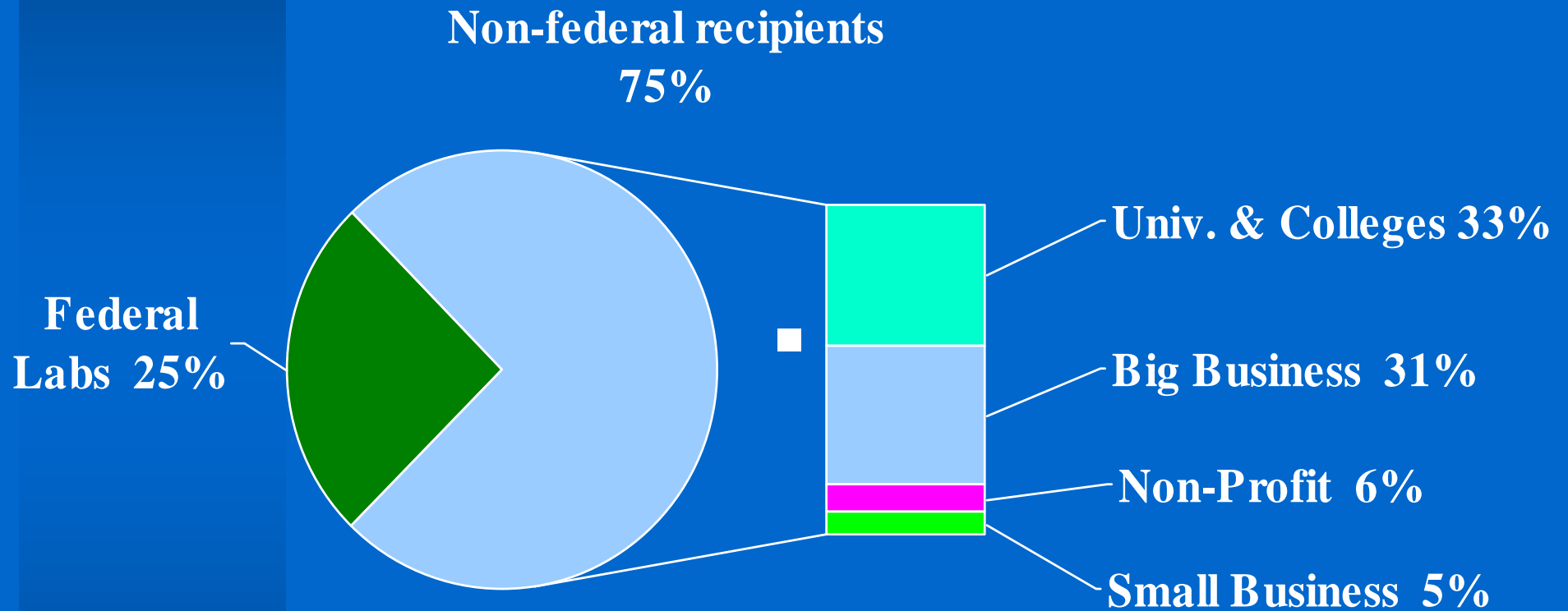
**NH F<sup>■</sup>AST**

**Federal and State Technology  
Partnership**

# Why SBIR/STTR Programs?

- **Federal Research & Development Needs can be met by:**
  - **Small Business**
  - **Academia, Federal Labs**
  - **Large Business**■
- **Small Business is a key contributor to the Economy of the Nation**
  - **Job Creation**
  - **Wealth Creation**
  - **Innovation**

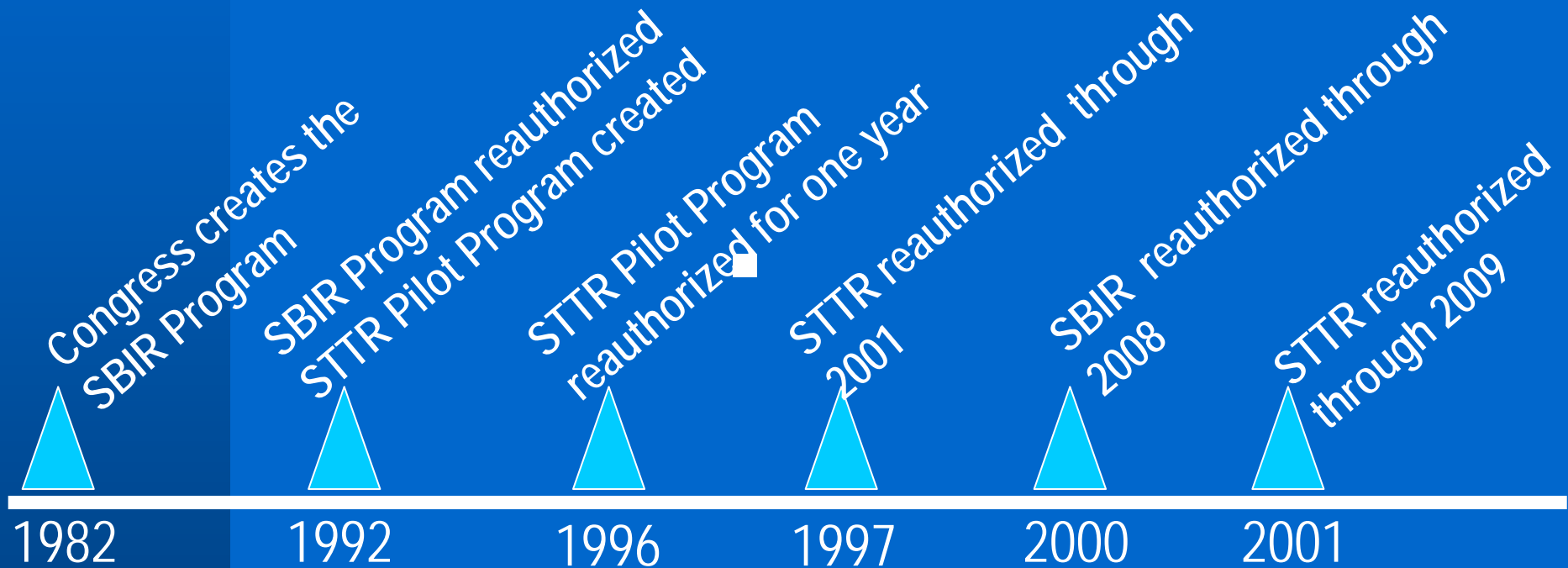
# Federal Research Expenditure



# What is the SBIR Program?

- A set-aside of federal research and development grant dollars targeted to small businesses
- Purpose: Help provide early stage R&D funding to small companies

# SBIR/STTR TimeLine



# Participating Agencies



**TOTAL ~ \$2.0B**

- DOD Defense
- HHS Health
- NASA Space
- DOE Energy
- NSF Science
- DHS HomeLand Security
- USDA Agriculture
- DOC Commerce
- EPA Environment
- DOT Transportation
- DoED Education

# Who's Eligible?



**For- profit U.S. business**



**At least 51% U.S.- owned**



**Small Business located in the U.S.**



**P.I.'s primary employment with small business during project**



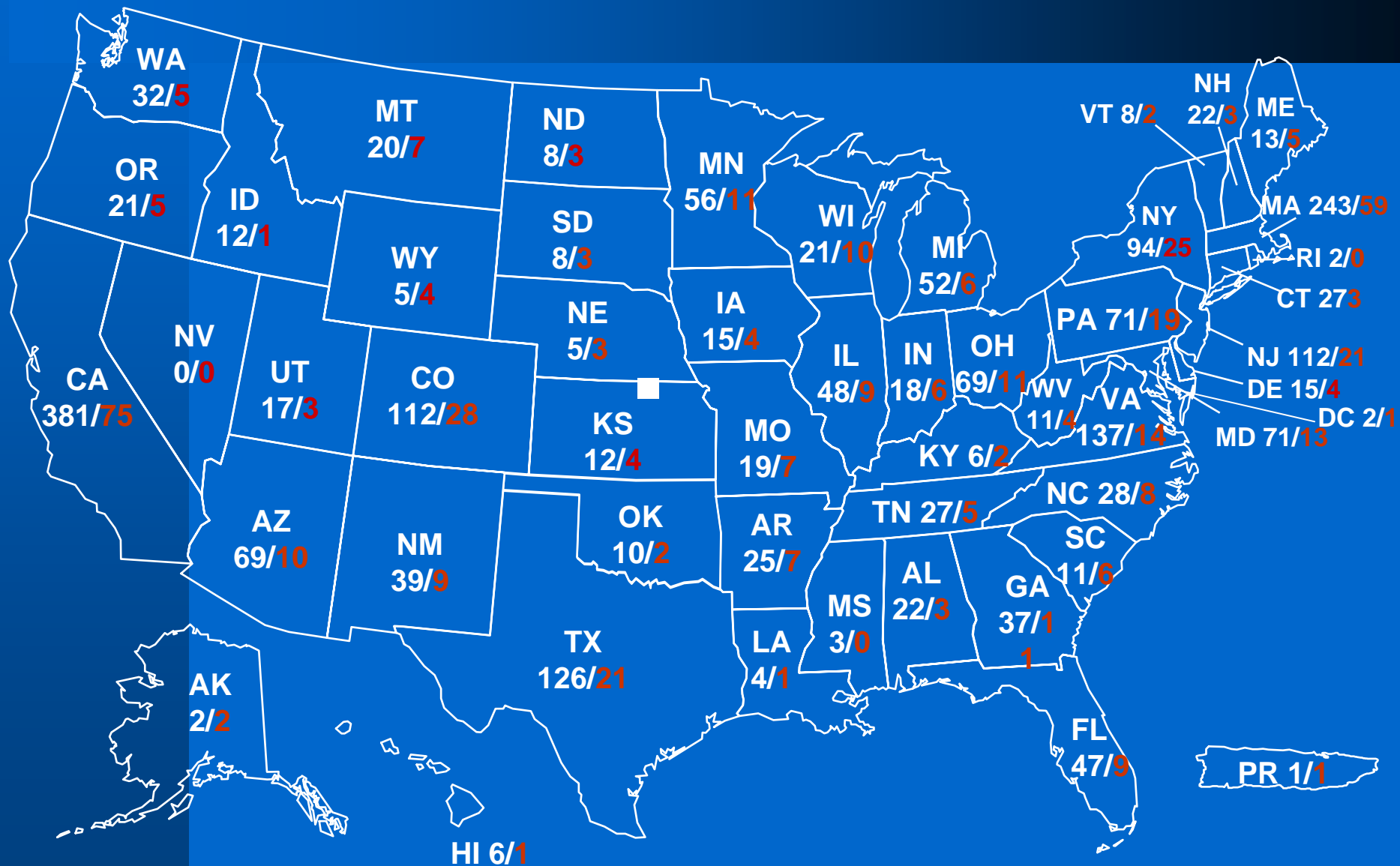
**500 employees or fewer**

# Where's the money?

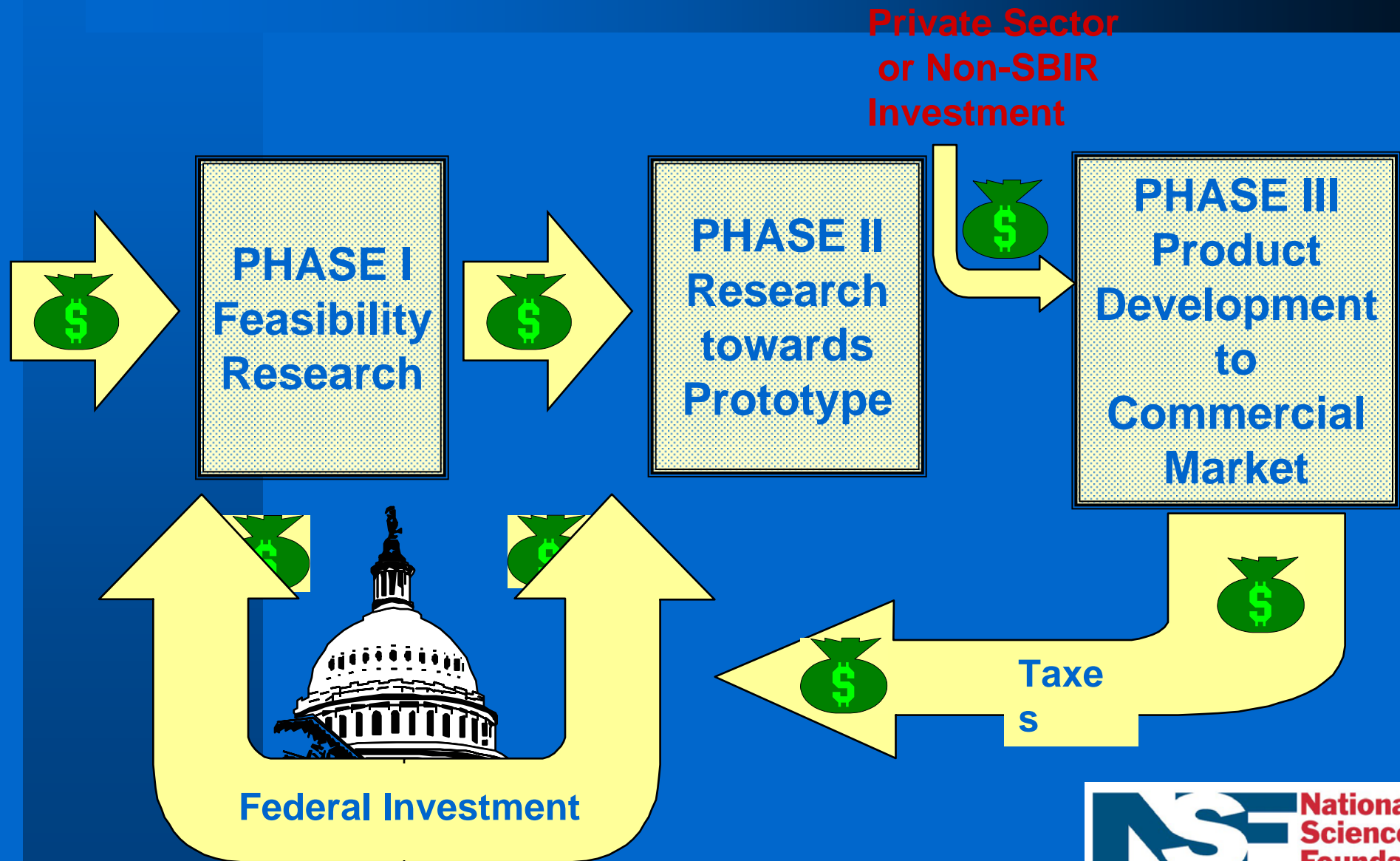
- **Phase I Feasibility Research**
  - SBIR – 6 months – up to \$100,000
  - STTR – 12 months – up to \$100,000
  -
- **Phase II – Concept Development –**
  - SBIR/STTR – 24 months up to \$500,000
- **Phase III – Commercial Application Private Funding**

# NSF FY-03 Phase I

(2,272 submissions and 476 awards)



# SBIR “Innovation” Model



# NH FAST Program

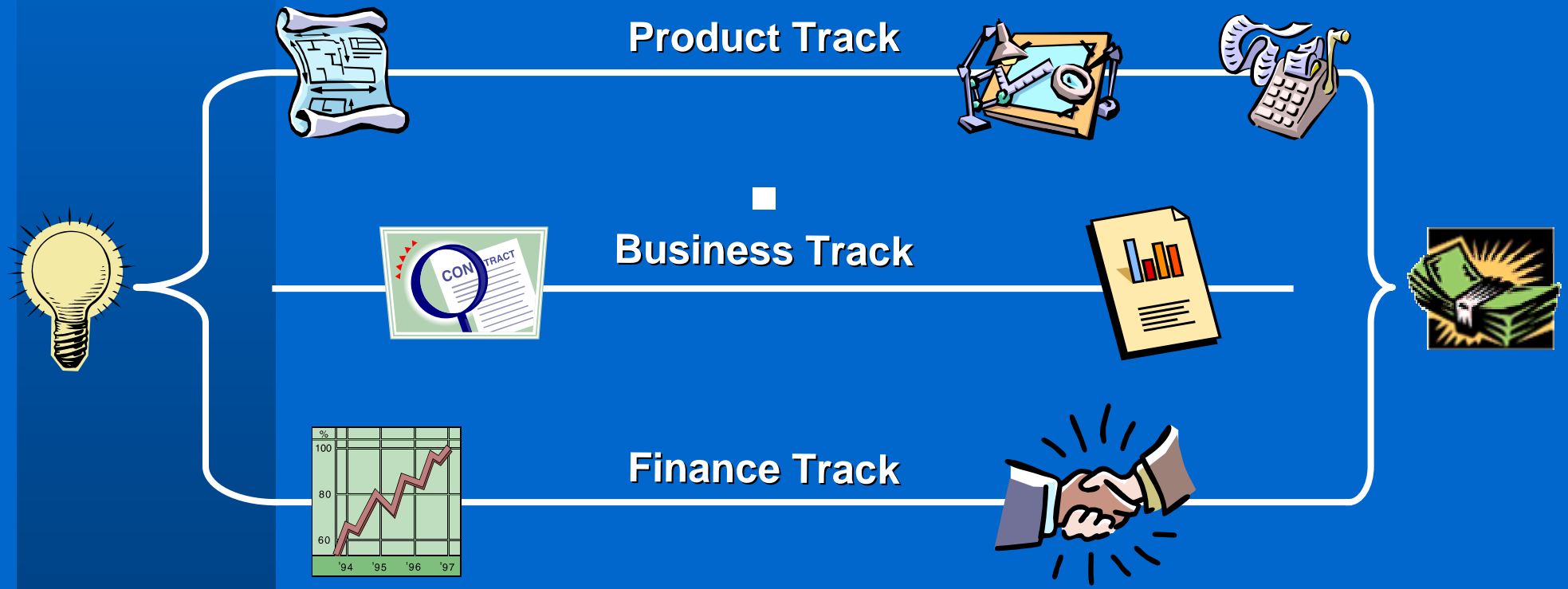
**Program  
Emphasis.....**



**.....Commercialization**

# Commercialization Model

*From Idea to Invoice*



Phase 0

Phase 1

Phase 2

Phase 3

**SBIR Phases**

NH Small Business Development  
Center

# Questions to Consider

- Is there a need for the technology?
- Has the necessary team for a successful program been assembled?
- Who will benefit from this technology?
- Who are the customers and who will invest?
- Has ownership of intellectual property been addressed?

# NH SBDC

## Professional Assistance Network

Intellectual Property Law

Business Law

Government Contracting

Accounting and Finance

Human Resources

Strategic Planning/Financing

Market Research

SBIR program-specific mentoring

# NH Small Business Development Center

603-862-2200

[www.nhsbdc.org](http://www.nhsbdc.org)

[www.zyn.com/sbir/](http://www.zyn.com/sbir/)

[www.sba.gov/sbir](http://www.sba.gov/sbir)



[www.acq.osd.mil/sadbu/sbir/othersites/index.htm](http://www.acq.osd.mil/sadbu/sbir/othersites/index.htm)

[www.ssti.org/Digest/digest.htm](http://www.ssti.org/Digest/digest.htm)

[www.sbirworld.com](http://www.sbirworld.com)

# EPSCOR in NH.....UNH

**Partnerships with universities, industry and government.**

- Experimental Program to Stimulate Competitive Research (EPSCOR)
- Goal: Maximize potential in state's Science & Tech resources - - - use as a foundation for economic growth.

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---

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# ***Vested for Growth***

**Capital for Business Development**

*Long-Term Growth Strategies Based on People and Quality*

## VfG Intro

- Vision
  - Expand quality jobs in NH; and
  - Grow profitable businesses
- Process
  - Home-grown NH solution
  - Start from borrower not investor needs
- Market Opportunity
  - Fill the space between bank and VC



## First Deal

- Bortech Inc., Keene NH
  - Portable arc-welding machine (patented)
  - 10 yr old business to be sold
  - High quality jobs for non-degreed people



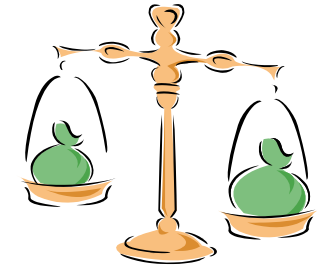
## First Deal

- Interested buyer
  - Local buyer with a \$500K capital gap
  - Not bankable, but did not want venture capital
  - Seeking win-win relationships

# New Solution



- Debt with revenue participation (Royalty)
  - Priced to reflect risk/reward balance
  - 9% from debt - \$500,000 at 9% for 10 years
  - Balance from % gross sales



# Debt with Revenue Participation

- Ownership is not diluted
- Exit does not require “cash-out” event
- Upside beyond debt is based on how well the company does
- Sub-chapter S corporations qualify

# Why entrepreneurs value VfG

- Risk tolerant
  - “Banker gone wild...”
- Patient partner and no ownership required
  - “Kinder, gentler venture capital”
- Not government program
  - Flexible resource
  - Hybrid b/t debt and equity



# What is VfG looking for?



- Entrepreneur with strong character
- Business with a strong growth proposition
- Shared belief in key business principles

# Ideal Prospect Company

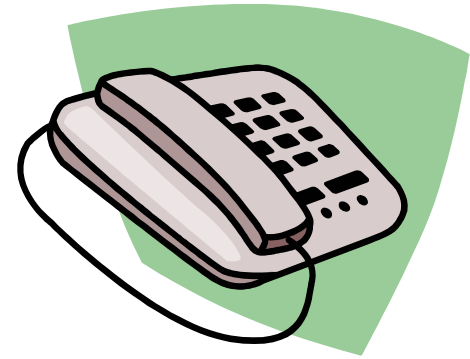


- Sells a solution, not a commodity
  - Customers buy based on relationship, not price
- Invests in R & D
  - Stays early in the product development lifecycle
- Generates or disrupts a market
  - Doesn't follow the market



## Latest Deal

- Design Mentor Inc., Pelham NH
  - Design engineering services
  - Clients: Medical device companies developing “next generation” technology
  - Expansion capital
    - Increase operational capacities
    - Develop “in-house” technology
  - 1/3 jobs = technicians



## What to refer to VfG?

- NH Business
- Capital needs \$100k-\$500k
- Stage: Start-up; Growth; Acquisition; and Employee buy-out
- Sectors:
  - Manufacturing
  - Service
  - Not retail and not contractors

## To share ideas or referrals ...

- Contact John Hamilton...

Phone: 224-6669 ext 239

Email: [jhamilton@vestedforgrowth.com](mailto:jhamilton@vestedforgrowth.com)

Visit VfG website: [www.vestedforgrowth.com](http://www.vestedforgrowth.com)

# Agenda

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# THE BOREALIS FUND

*Venture Capital Uniquely Focused  
on Northern New England  
- Building the Next Generation of Great  
NNE Companies*

Financing Growth

September 14, 2004

# Investment Focus

*Geography* Northern New England

:

*Sectors:* Information Technology, Life Sciences,  
Communications, Physical Sciences, Other High-  
Growth Businesses

*Stage:* Seed-Early Stage

*Investment  
Size:* Up to \$1.5M per company over life of investment  
(usually \$250k-\$750k initially)

*Role:* Lead investor (but will follow quality lead investor  
in deals requiring specialized expertise or greater  
capital)

# Requirements

- TEAM
  - relevant industry, passion, execution.
- MARKET
  - large, timing, customer behavior.
- PRODUCT/SERVICE
  - painkiller, product growth, proof points.
- BUSINESS MODEL – make money?
- DEAL - good for all?

# Portfolio Overview

<i>Portfolio Company</i>	<i>Sector</i>	<i>Stage</i>	<i>Borealis Role</i>
<b>GlycoFi</b> <i>(April 2002; Dec. 2003)</i>	Biotech	Early	Co-invest
<b>ThermalVision</b> <i>(Jan. 2003; April 2003)</i>	Medical Device	Seed	Lead
<b>Scribe</b> <i>(Jan. 2003; Oct. 2003)</i>	Software	Early	Lead
<b>Magenta Medical</b> <i>(April 2003; March 2004)</i>	Medical Device	Seed	Co-Lead
<b>Medical Media Systems</b> <i>(Aug. 2003)</i>	Medical software & services	Early	Lead
<b>AEC1/Newforma</b> <i>(Dec.2003) (May 5<sup>th</sup>)</i>	Software	Seed Series A-5m	Founder NBVP-Kodiak



# The Borealis Fund

FORWARD PLANS TO  
[info@borealisventures.com](mailto:info@borealisventures.com)

## CONCORD, NH

114 N. Main Street  
Concord, NH 03301

(603) 226-4480

[jdevitte@borealisventures.com](mailto:jdevitte@borealisventures.com)    [pferneau@borealisventures.com](mailto:pferneau@borealisventures.com)

[sean@villageventures.com](mailto:sean@villageventures.com)

## HANOVER, NH

10 Allen Street  
Hanover, NH 03755

(603) 643-1500



**Rochester, NH**

September 14, 2004

CEI is a Maine-based non-profit CDFI with two for-profit VC subsidiaries

**Coastal Enterprises Inc.**

**CEI Ventures, Inc.**

Community Development Venture Capital

**(CVI)**

- Founded in 1994



**COMMUNITY  
VENTURES**



**(CCVI)**

- Founded in 2001; SBA licensed as of 2003

# Venture capital at CEI: Common threads



Financial and  
social returns

Multi-  
sector,  
multi-  
stage

New  
England  
focus

# Venture Capital at CEI: Fund comparison



<b>Fund size</b>	<ul style="list-style-type: none"><li>• \$20M</li></ul>	<ul style="list-style-type: none"><li>• \$10M</li></ul>
<b>Avg. investment</b>	<ul style="list-style-type: none"><li>• \$1M</li></ul>	<ul style="list-style-type: none"><li>• \$500-750K</li></ul>
<b>Geographic focus</b>	<ul style="list-style-type: none"><li>• Eastern Seaboard (Primarily New England)</li></ul>	<ul style="list-style-type: none"><li>• ME, NH and VT</li></ul>
<b>Contact info</b>	<ul style="list-style-type: none"><li>• Nat Henshaw (<a href="mailto:nvh@ceimaine.org">nvh@ceimaine.org</a>)</li><li>• Mark Kaplan (<a href="mailto:mdk@ceimaine.org">mdk@ceimaine.org</a>)</li></ul>	<ul style="list-style-type: none"><li>• Michael Gurau (<a href="mailto:mhg@ceicommunityventures.com">mhg@ceicommunityventures.com</a>)</li><li>• Michael Burgmaier (<a href="mailto:mcb@ceicommunityventures.com">mcb@ceicommunityventures.com</a>)</li></ul>



**COMMUNITY  
VENTURES**



# OA grant pool and target geographies

**Private  
Investors**

e.g, Banknorth,  
MacArthur  
Foundation

\$5M

**SBA**

\$5M

**OA Funders  
Cash,  
In-kind**

e.g, Pierce Atwood,  
Brown Design,  
NHCDFA

\$1.5M

\$1.5M

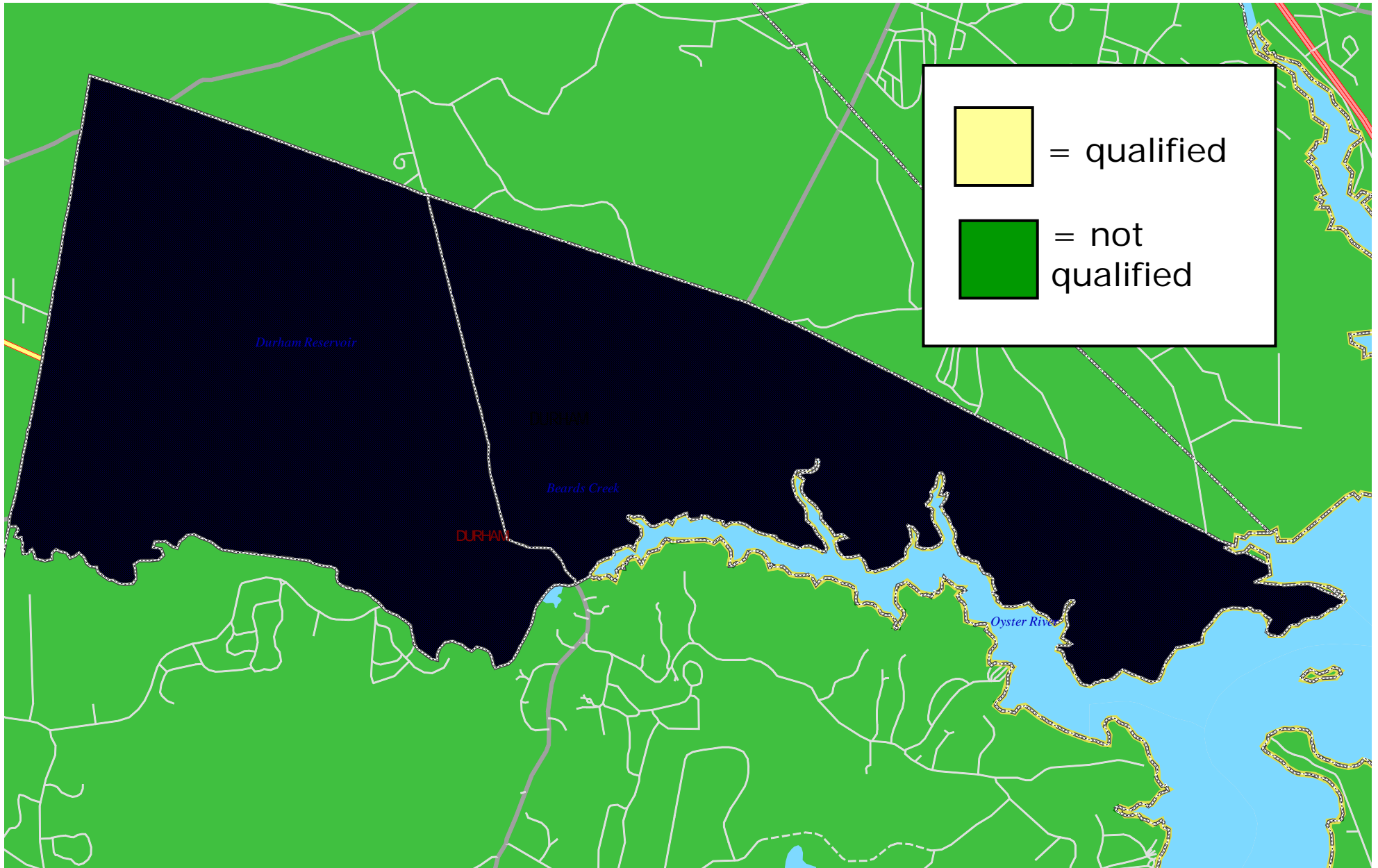
**\$10M Equity  
Fund**

**\$3M Operational  
Assistance Pool**

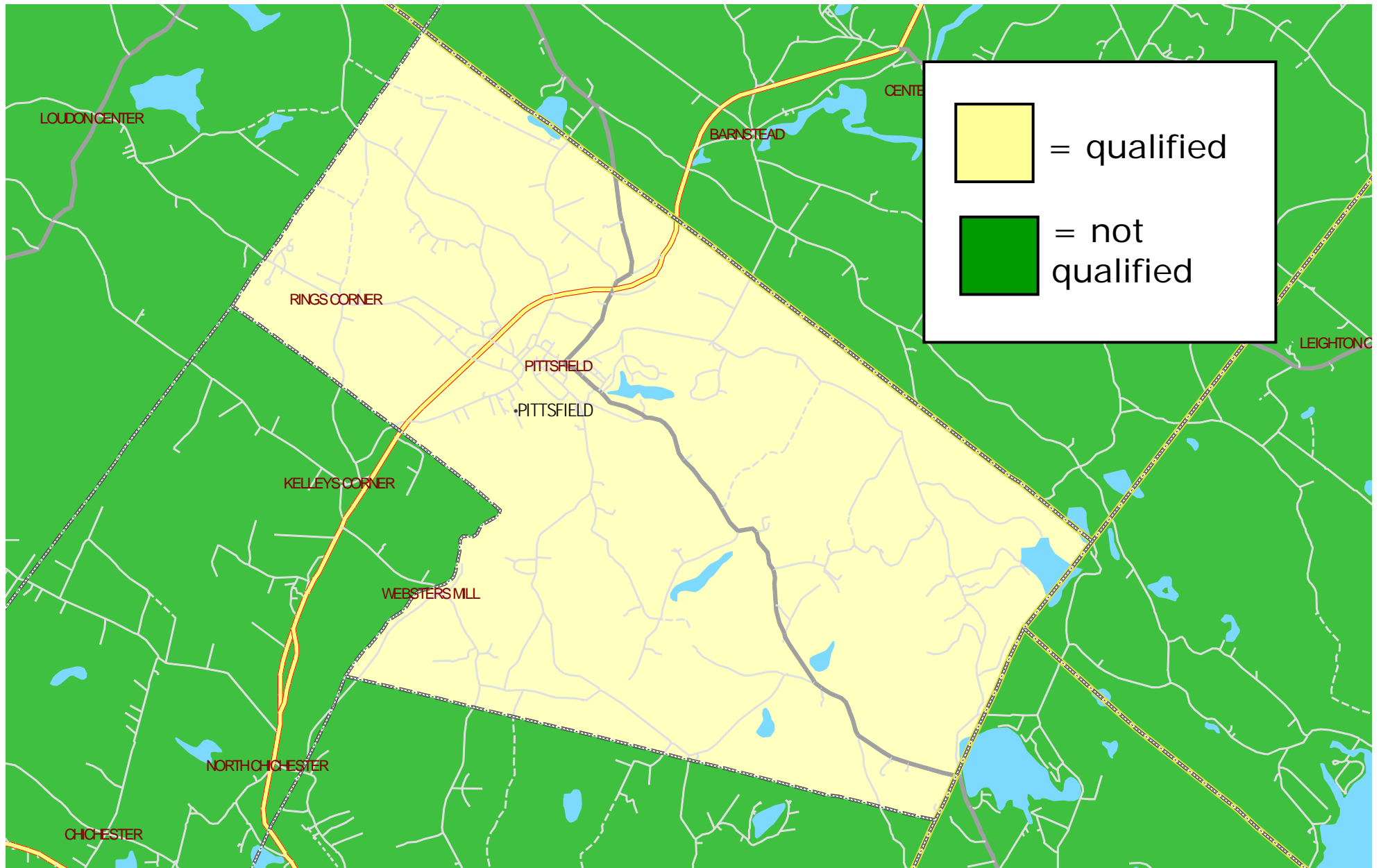


**Investments focused in  
distressed communities (HUB,  
EC/EZ Zones, low-income  
areas)**

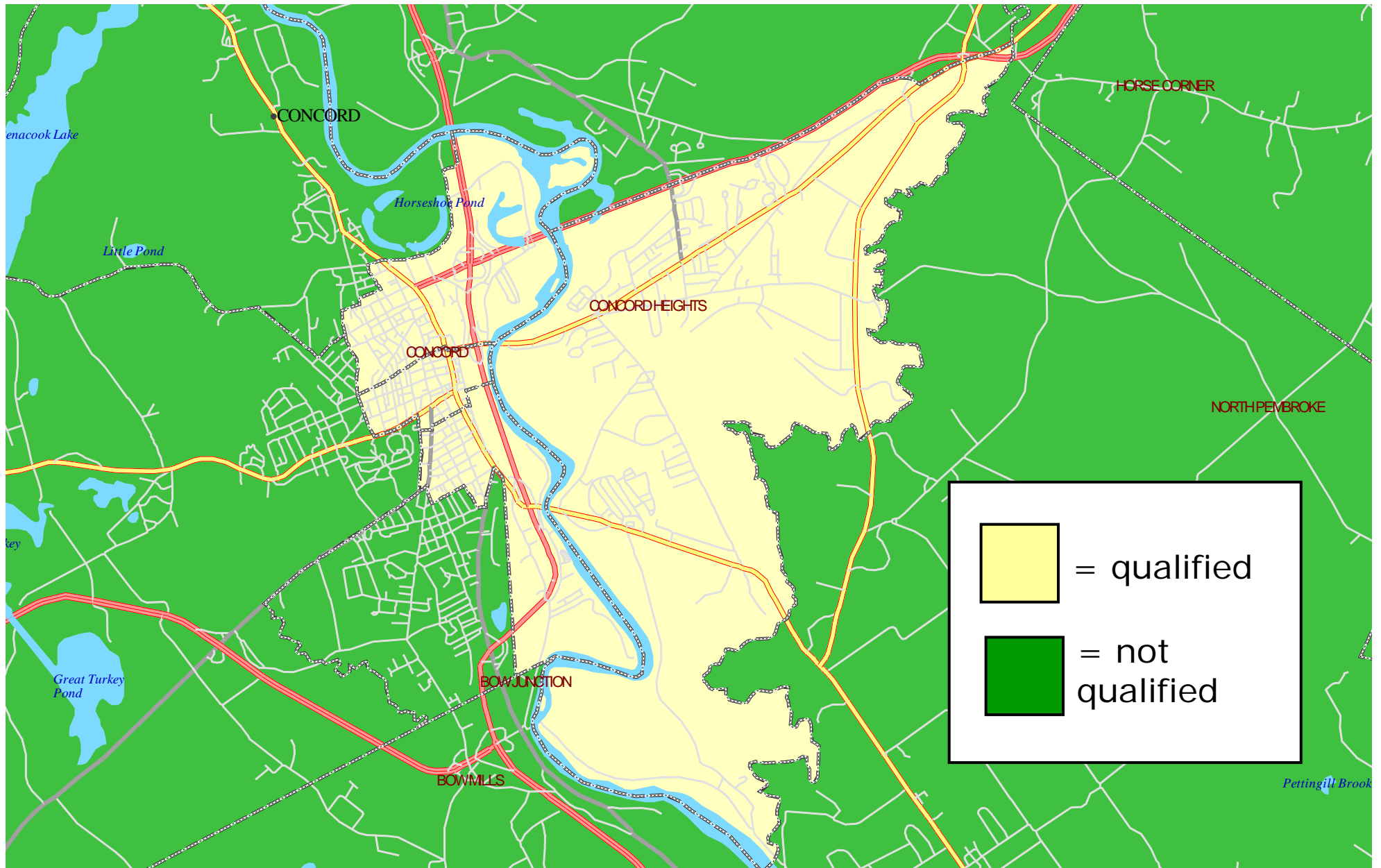
# Greater Rochester area qualified tracts – Durham, NH



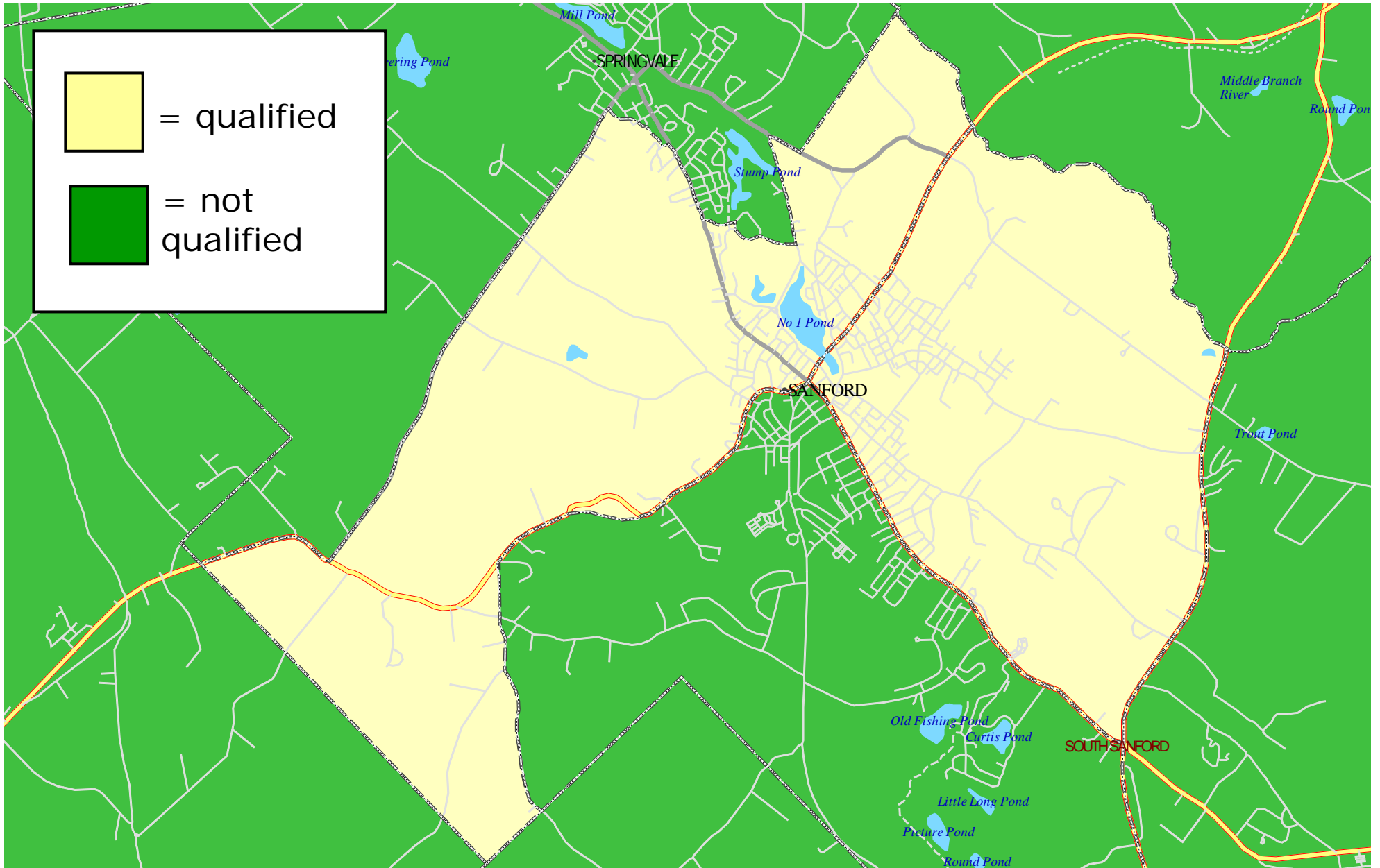
# Greater Rochester area qualified tracts – Pittsfield, NH



# Greater Rochester area qualified tracts – Concord, NH



# Greater Rochester area qualified tracts – Sanford, ME



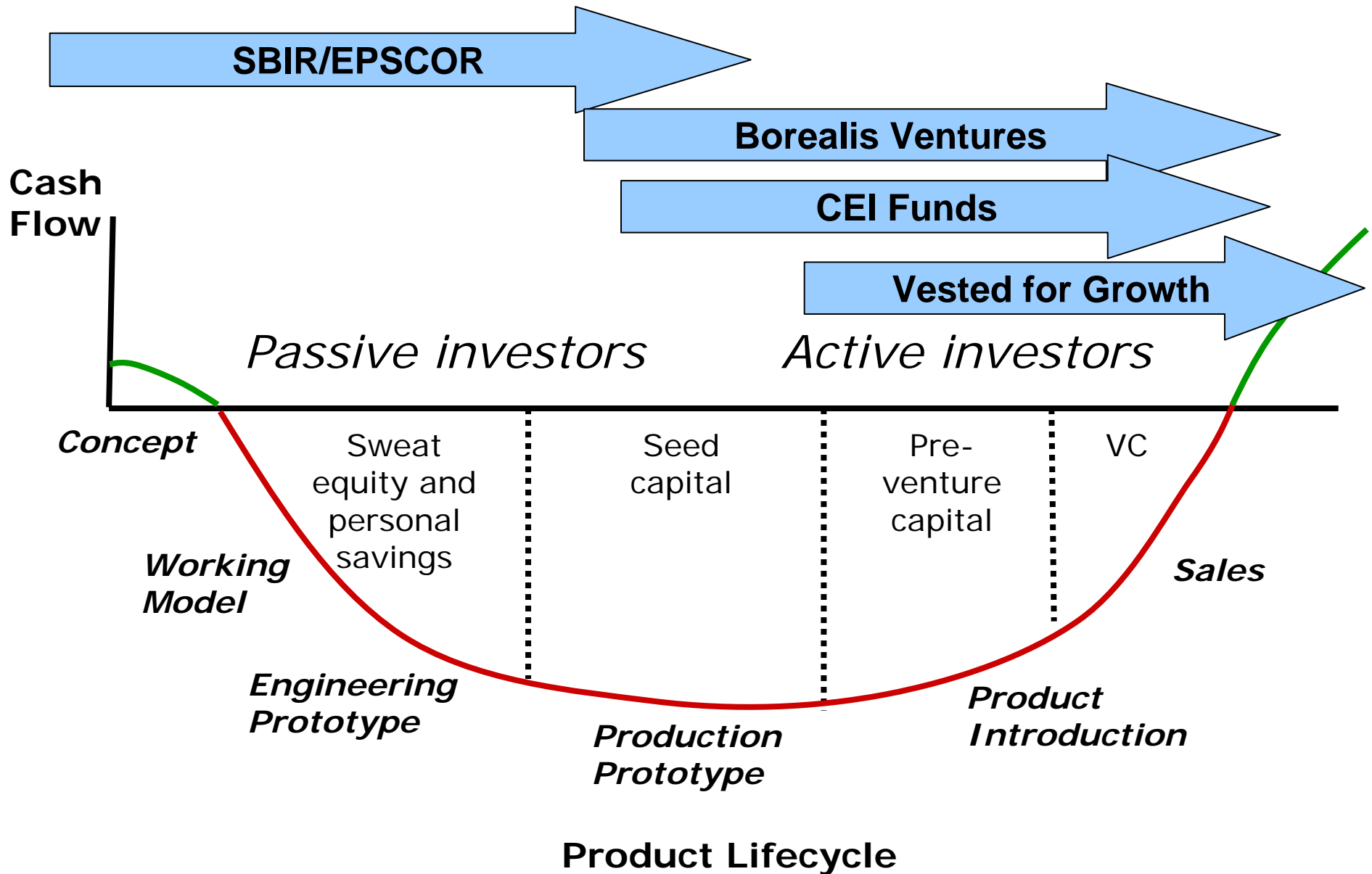
# Seeking venture capital – considerations

- Personal ambition
  - Role in company over time
  - Issues around exit: lifestyle vs. the next Microsoft
- Your odds of securing funding
- Stage of development
  - Business planning
  - Pre-commercialization
  - Commercialization
  - Growth

# Summary

- This list is not exhaustive
  - Other types of financing and/or support resources exist
    - Local and regional economic development entities
    - SBA and SBDCs
- Consider your objectives when evaluating financing sources
  - Personal
  - Professional
  - Financial

# Where the funds fit on the Valley of Death



Thank you

**Sponsors:**

 **Banknorth Group, Inc.**

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