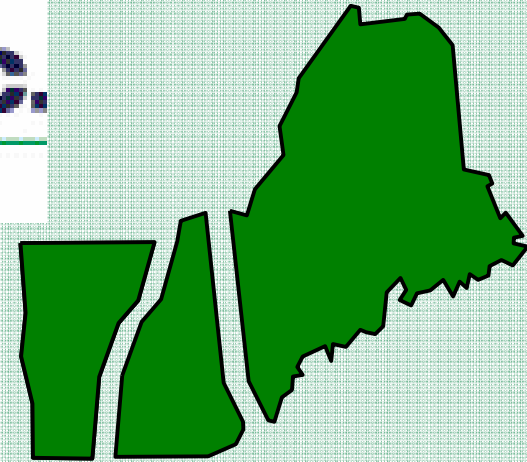


Sponsored by:

 **Banknorth Group, Inc.**



Spectrum of Finance

Agenda for Growth, Bedford, NH
December 7th, 2004

Agenda

- 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

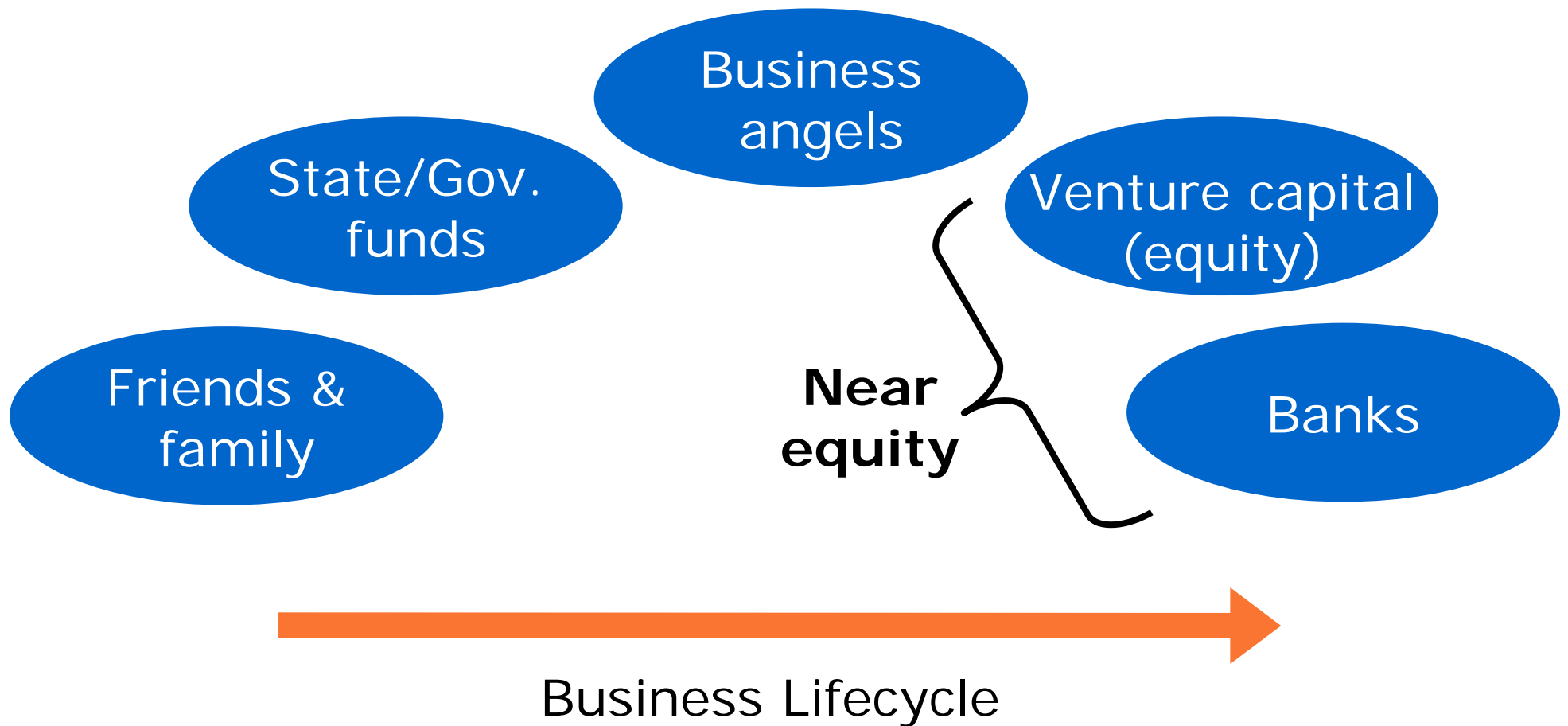
Working capital needs

- Accounts receivables
- Inventory

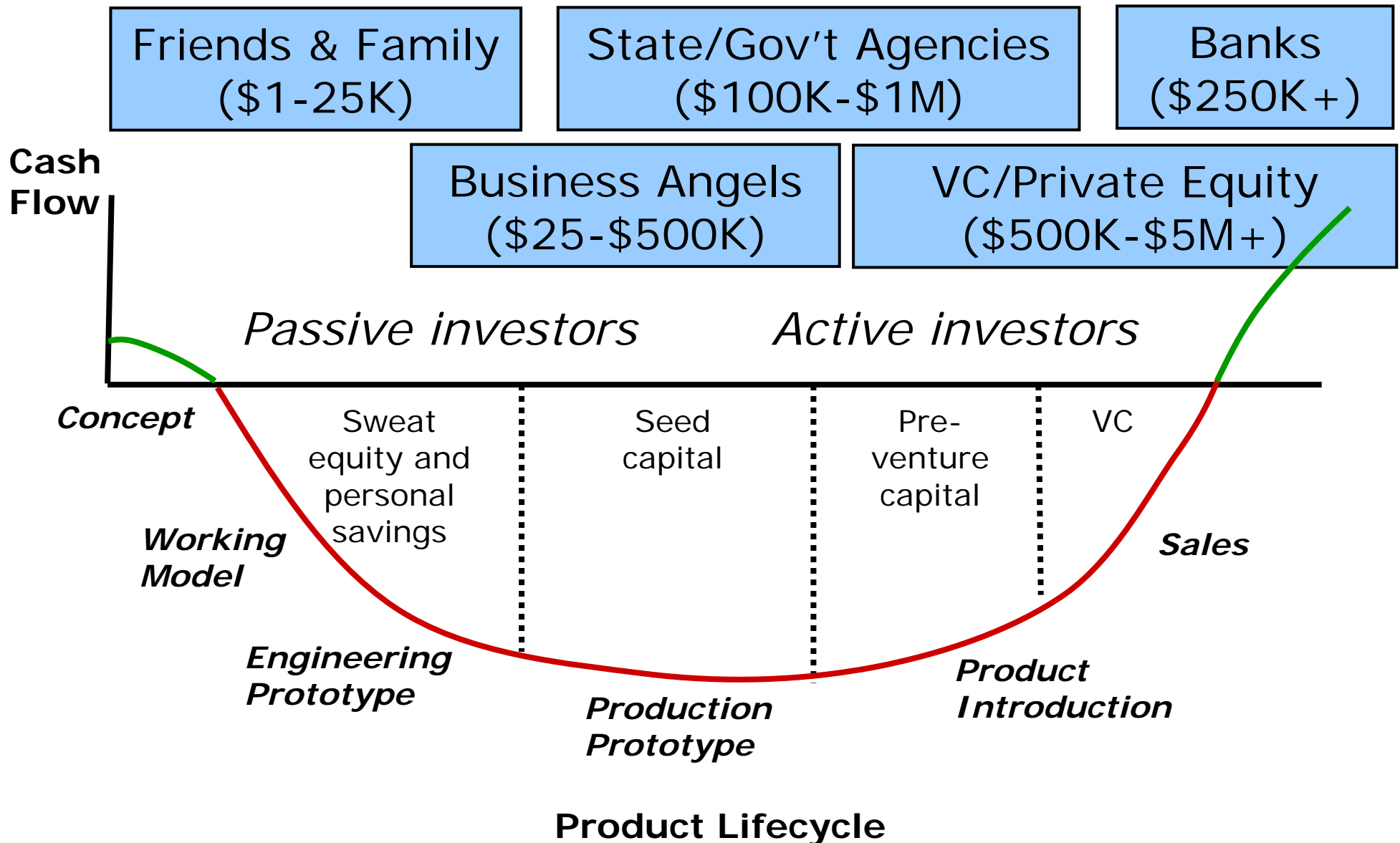
Capital expansion

- 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

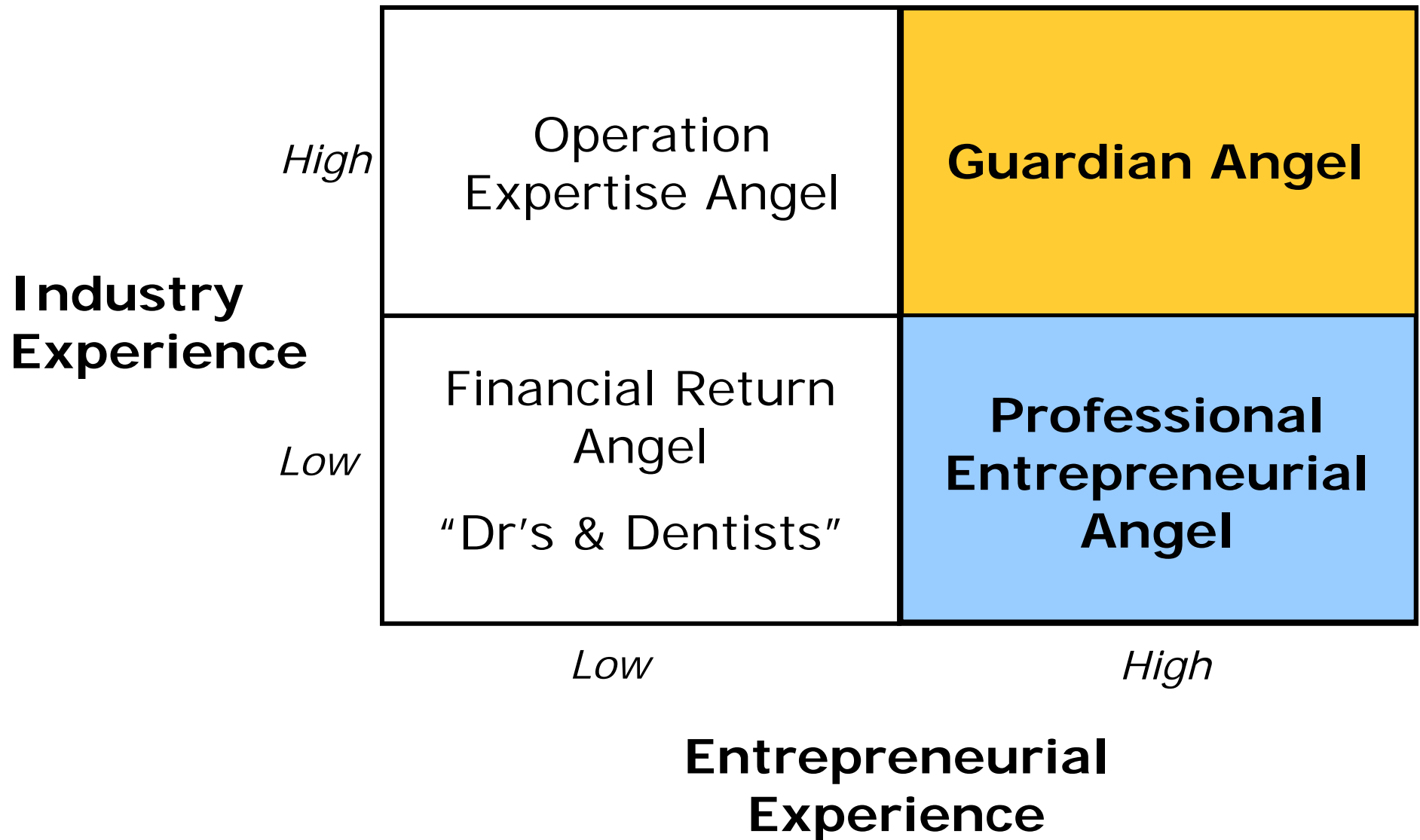
Equity

- 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

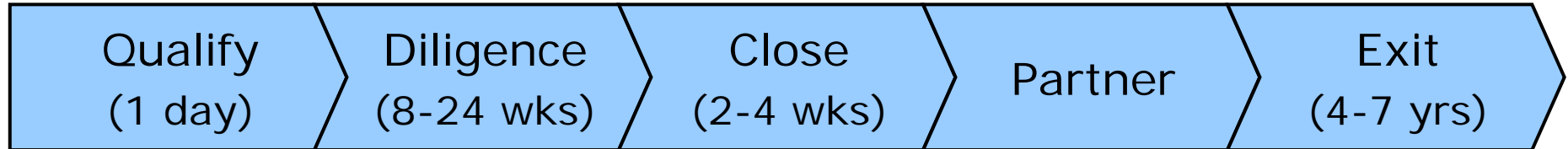
The front line of equity investors: business angels

- 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

Agenda

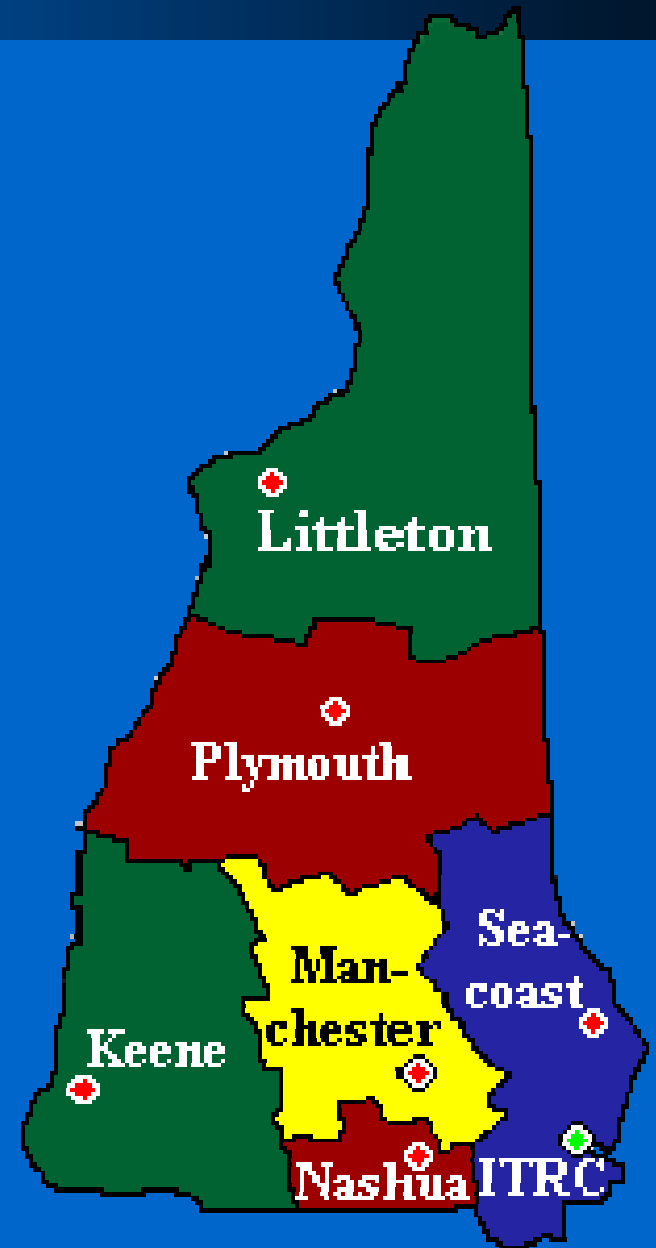
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NH Small Business Development Center SBDC

A National Partnership Program

Hosted by UNH & the
Whittemore School of Business
and Economics

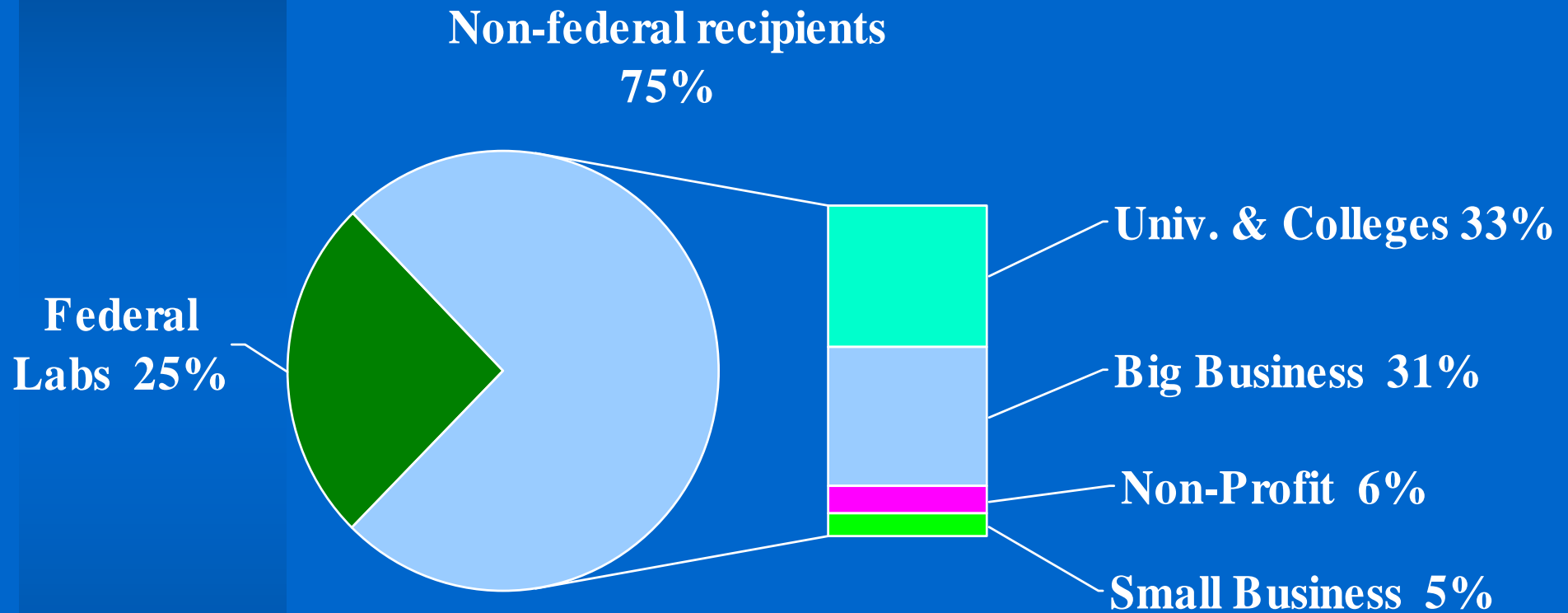
A cooperative venture: US SBA;
State of NH; University System
of NH and the Private Sector



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

Federal Research Expenditure



Participating Agencies



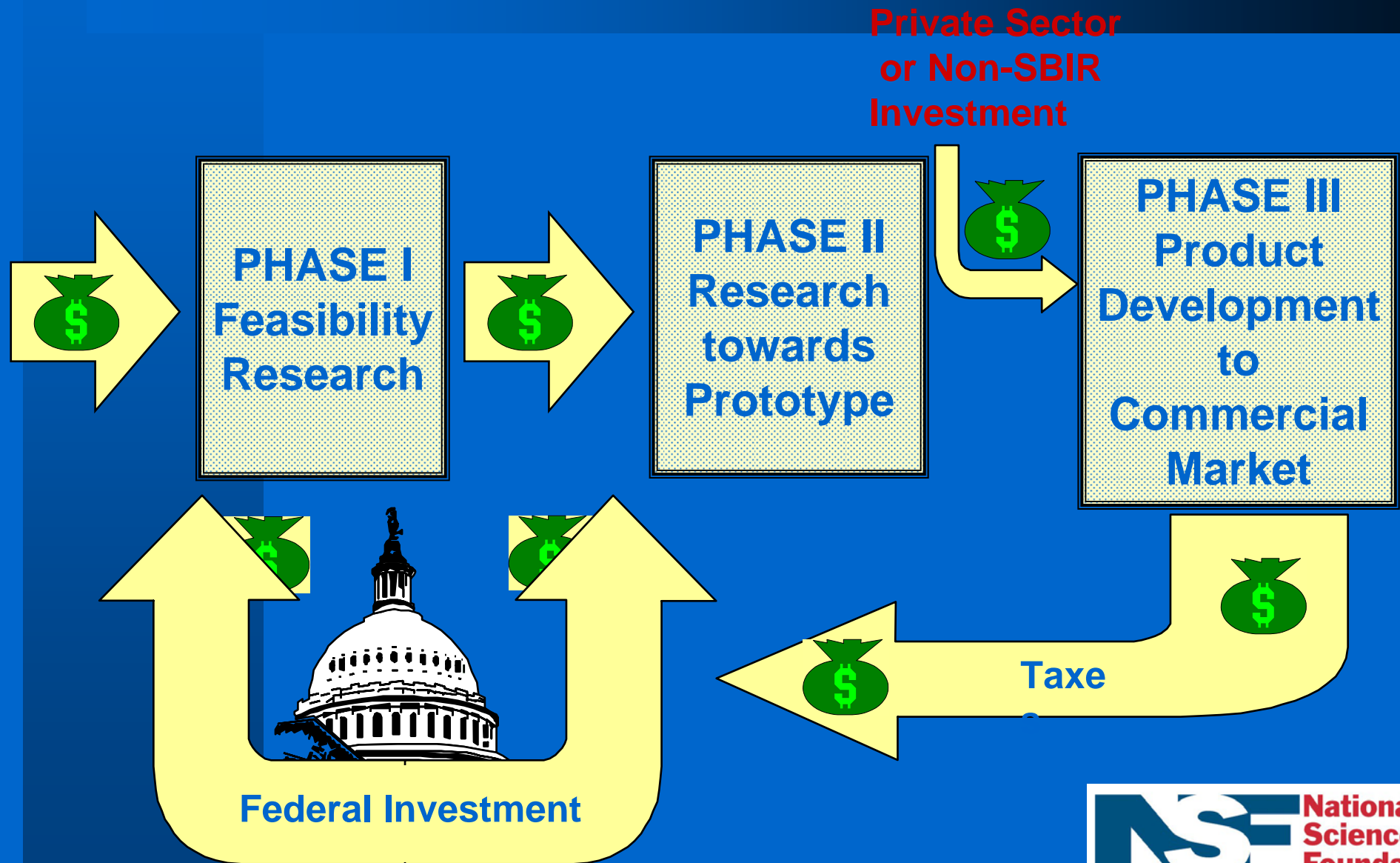
TOTAL ~ \$2.0B

- 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**

SBIR “Innovation” Model



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 EPSCORUNH

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.

NH Small Business Development Center

603-862-2200

www.nhsbdc.org

www.zyn.com/sbir/

www.sba.gov/sbir

www.acq.osd.mil/sadbu/sbir/othersites/index.htm

www.ssti.org/Digest/digest.htm

www.sbirworld.com

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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



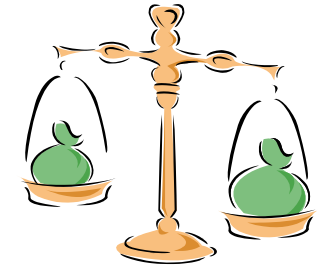
First Deal

- 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

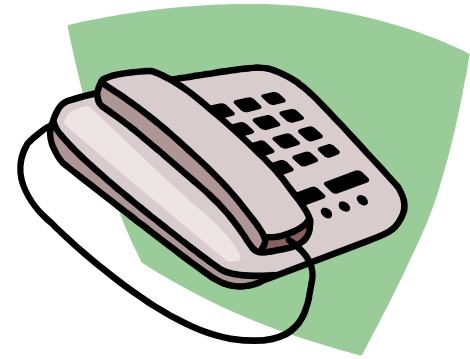


- Sells a solution, not a commodity
 - Customers buy based on relationship, not price
- Invests in R & D
 - Stays early in the product development lifecycle
- Generates or disrupts a market
 - Doesn't follow the market



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

Visit VfG website: www.vestedforgrowth.com

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THE BOREALIS FUND

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

Agenda for Growth

December 7th, 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>
GlycoFi <i>(April 2002; Dec. 2003)</i>	Biotech	Early	Co-invest
ThermalVision <i>(Jan. 2003; April 2003)</i>	Medical Device	Seed	Lead
Scribe <i>(Jan. 2003; Oct. 2003)</i>	Software	Early	Lead
Magenta Medical <i>(April 2003; March 2004)</i>	Medical Device	Seed	Co-Lead
Medical Media Systems <i>(Aug. 2003)</i>	Medical software & services	Early	Lead
AEC1/Newforma <i>(Dec.2003) (May 5th)</i>	Software	Seed Series A-5m	Founder NBVP-Kodiak



The Borealis Fund

FORWARD PLANS TO

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114 N. Main Street
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(603) 226-4480

jdevitte@borealisventures.com

HANOVER, NH

10 Allen Street
Hanover, NH 03755

(603) 643-1500

pferneau@borealisventures.com

sean@villageventures.com



Agenda for Growth

December 7th, 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



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



**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)**

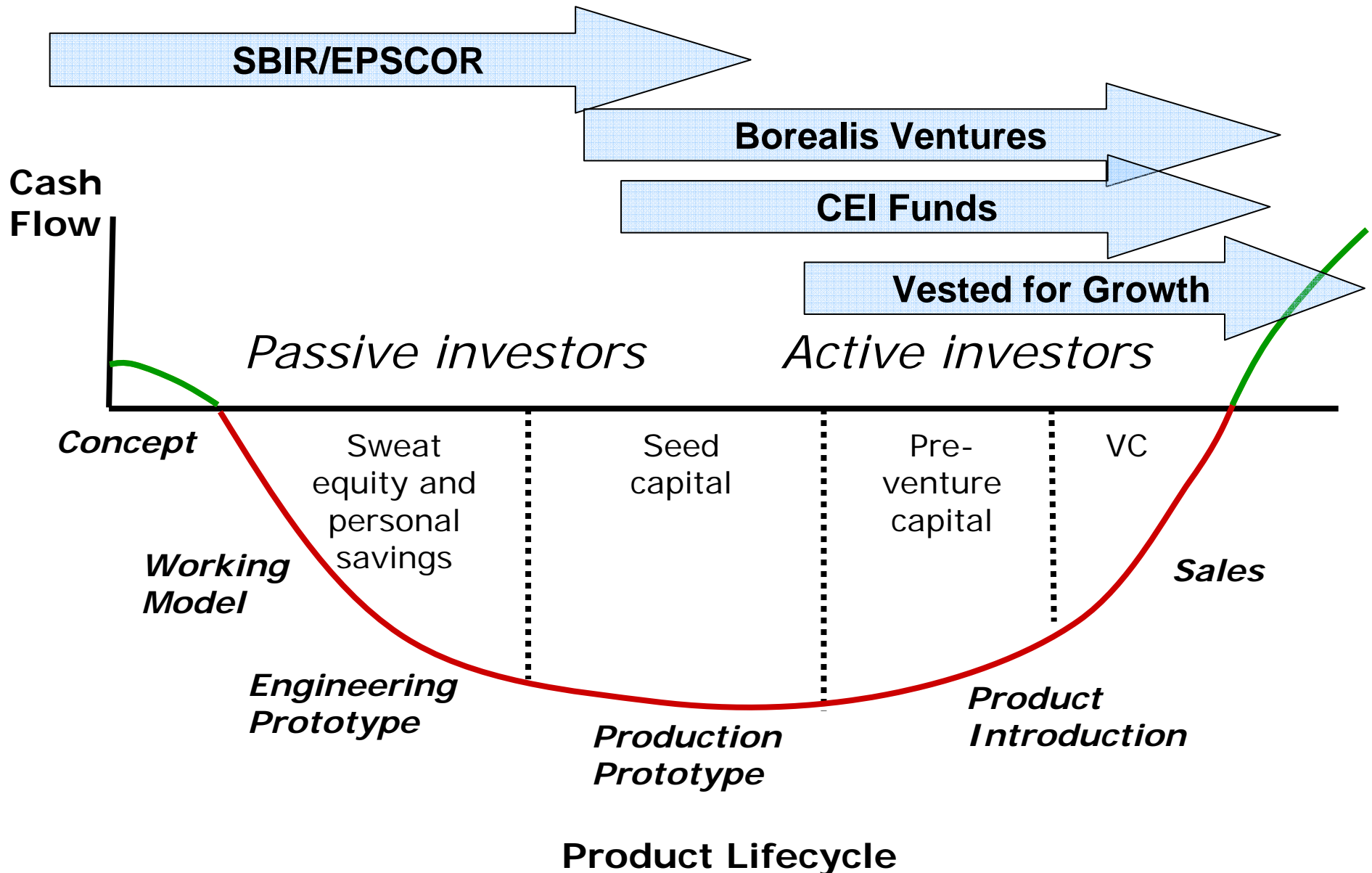
Seeking venture capital – considerations

- 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.**
