

Sponsors:



Banknorth



MERRITT & MERRITT & MOULTON
LAWYERS FOR GROWTH COMPANIES

GALLAGHER, FLYNN & COMPANY, LLP



CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS



Vermont Business Center
at the School of Business Administration

Financing Growth

Burlington, VT

January 11, 2006

Agenda

- Background
 - Purposes and sources
 - Debt v. Equity
- Venture capital
 - Process and Valuation
- Government funding
 - SBIR Grants
- Regional VC Funds
 - Fresh Tracks Capital
 - CEI Community Ventures

Growth requires capital

Operational capacity

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

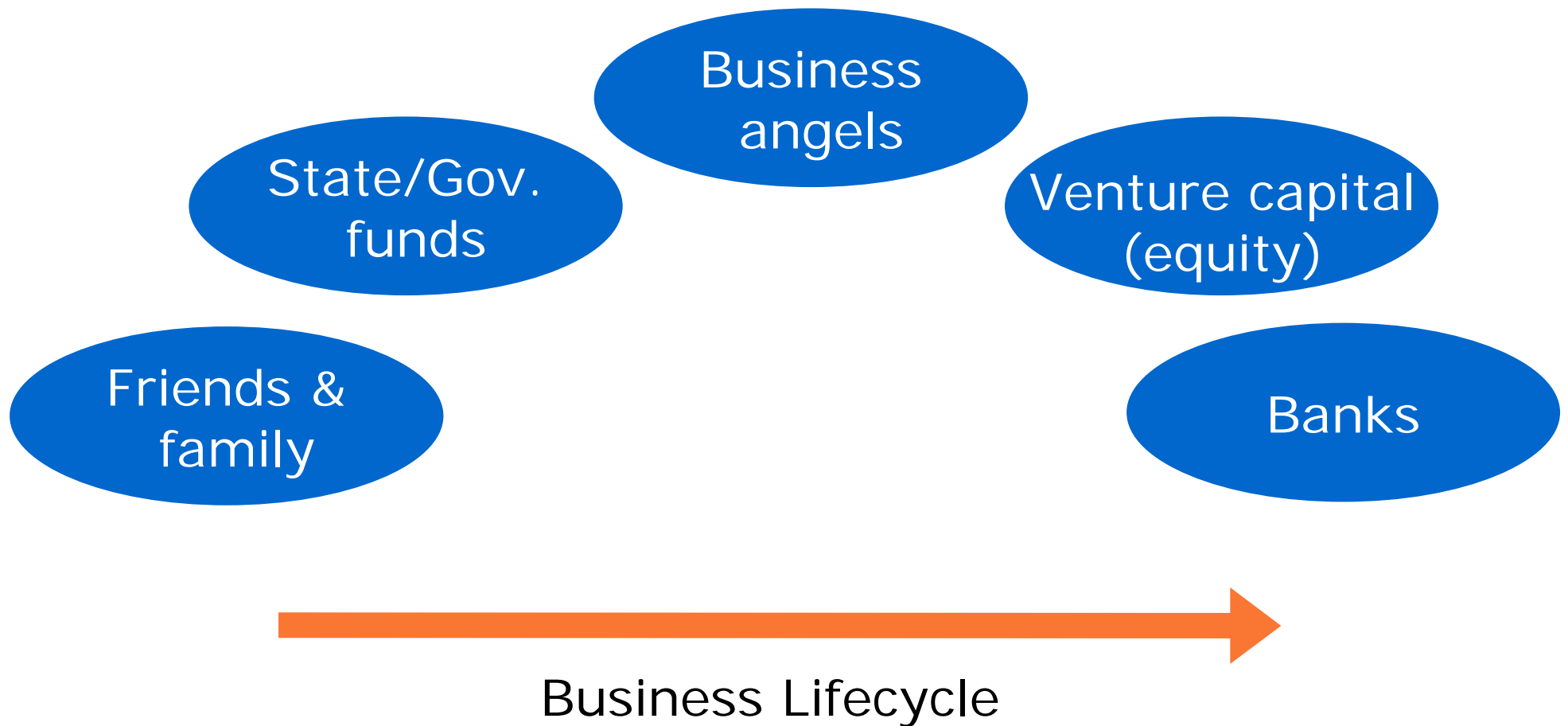
Working capital needs

- Accounts receivables
- Inventory

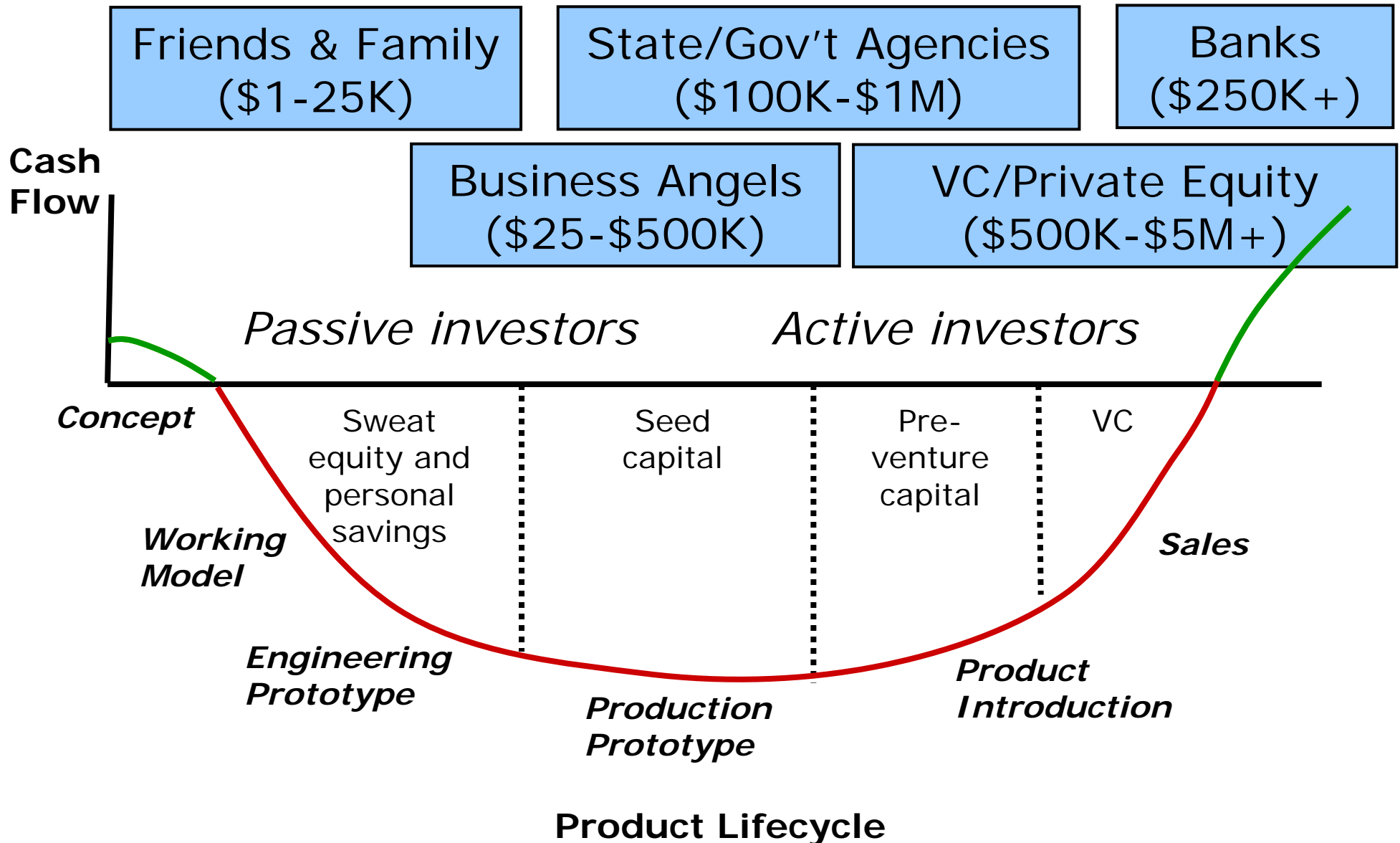
Capital expansion

- 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

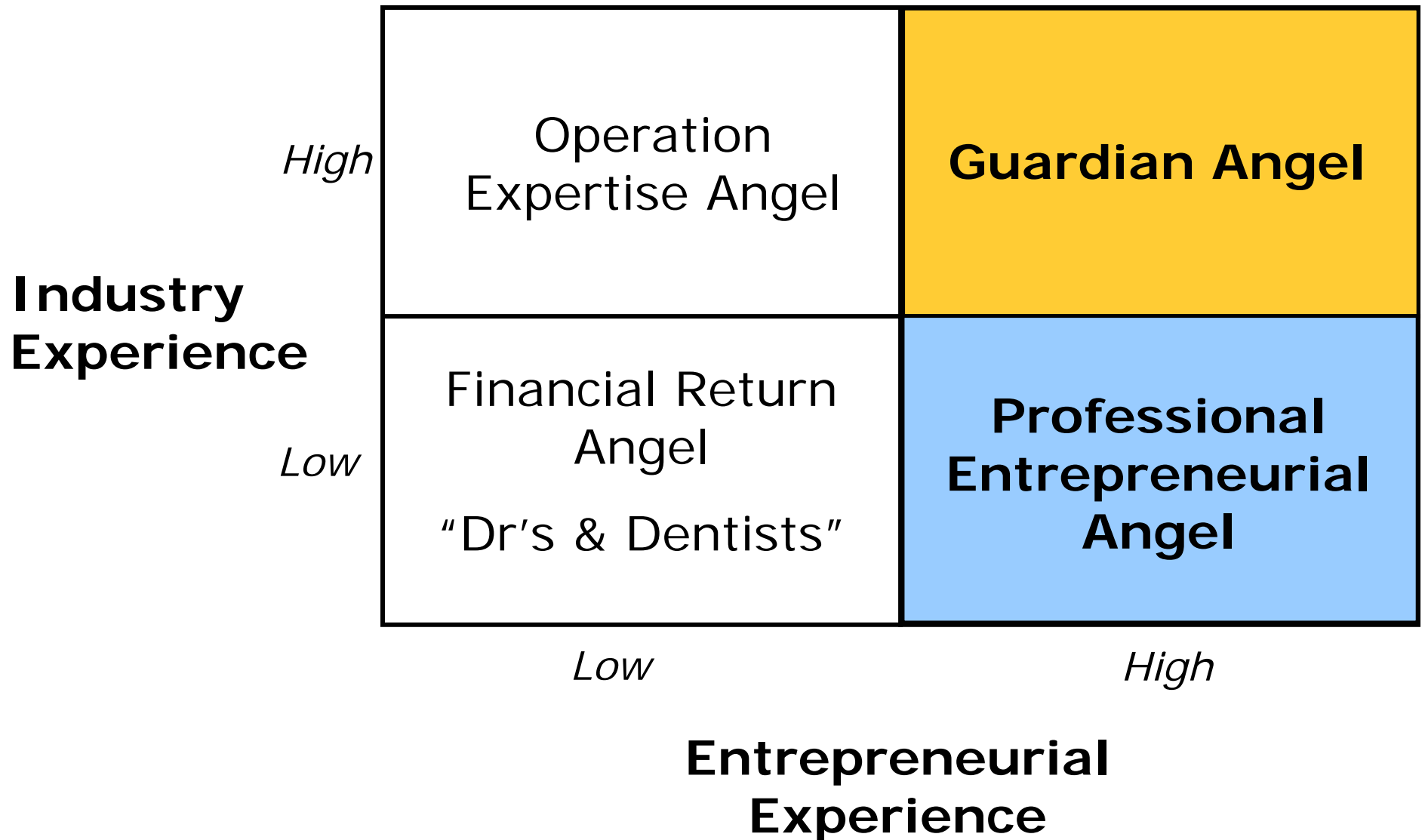
Equity

- 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
 - Vermont Angel resources
 - ▶ North Country Angels (Fred Wainwright at Tuck -- wainwright@northcountryangels.com)
 - ▶ Vermont Investors Forum
- Quality of support and advice can vary

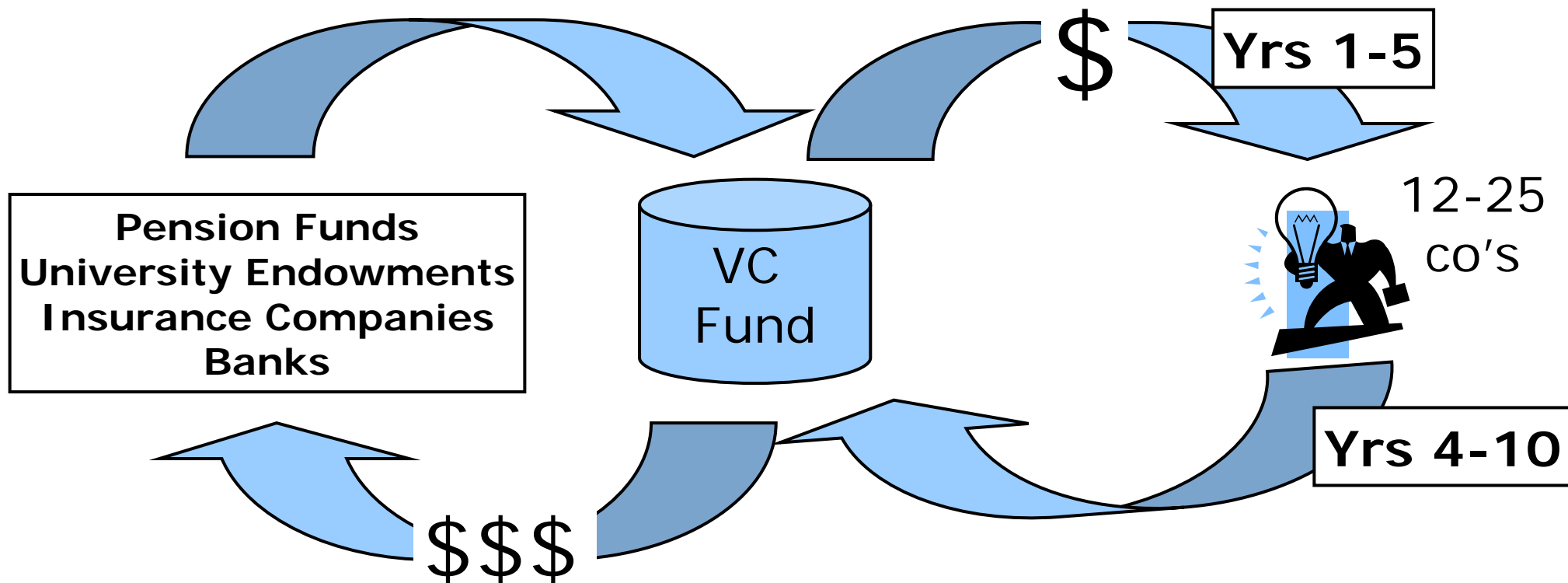
Not all angels are the same



Agenda

- Background
 - Purposes and sources
 - Debt v. Equity
- Venture capital
 - Process and Valuation
- Government funding
 - SBIR Grants
- Regional VC Funds
 - Fresh Tracks Capital
 - CEI Community Ventures

Investors support VC funds that can consistently manage high risk capital



Venture capital managers must plan for losses as well as gains

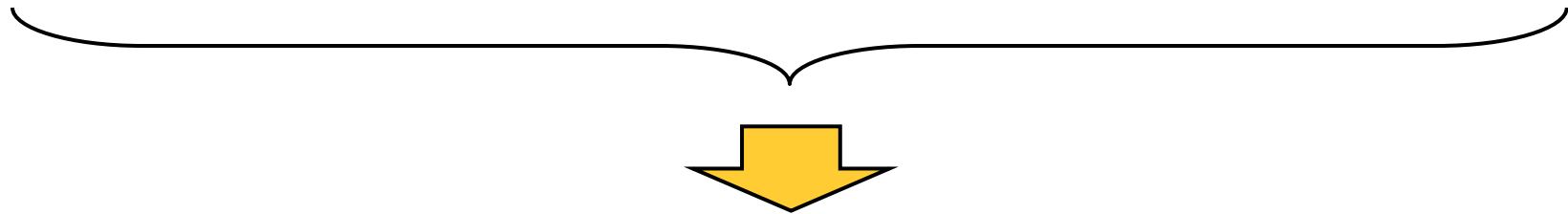


12-25
Investments

$1/3 = 100\%$ loss

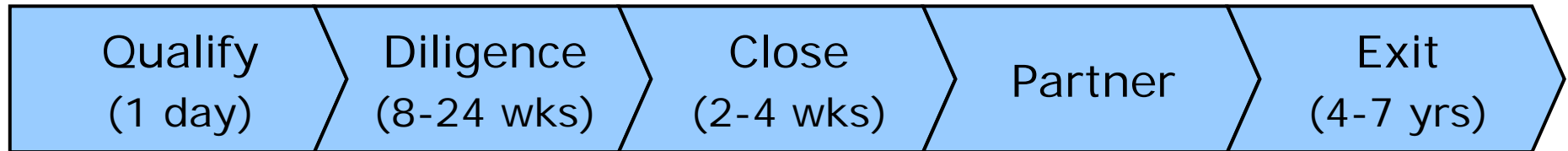
$1/3 =$ return of cap.

$1/3 =$ profit



**VC pricing/evaluation must
accommodate expectations of
portfolio loss**

The venture capital process involves several distinct stages



- Sector
- Story
- Management
- Margins
- Growth potential
- Exit options

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

- Terms
- Legal/
Accounting
- Investment

- Active partnership
- Board of Directors

- Sale/
merger or
IPO

Breaking down business risk

- Management
- Market
- Product
- Technology
- Financial
- Legal



**Focal points
of due
diligence**

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 real estate

Financial

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

Legal

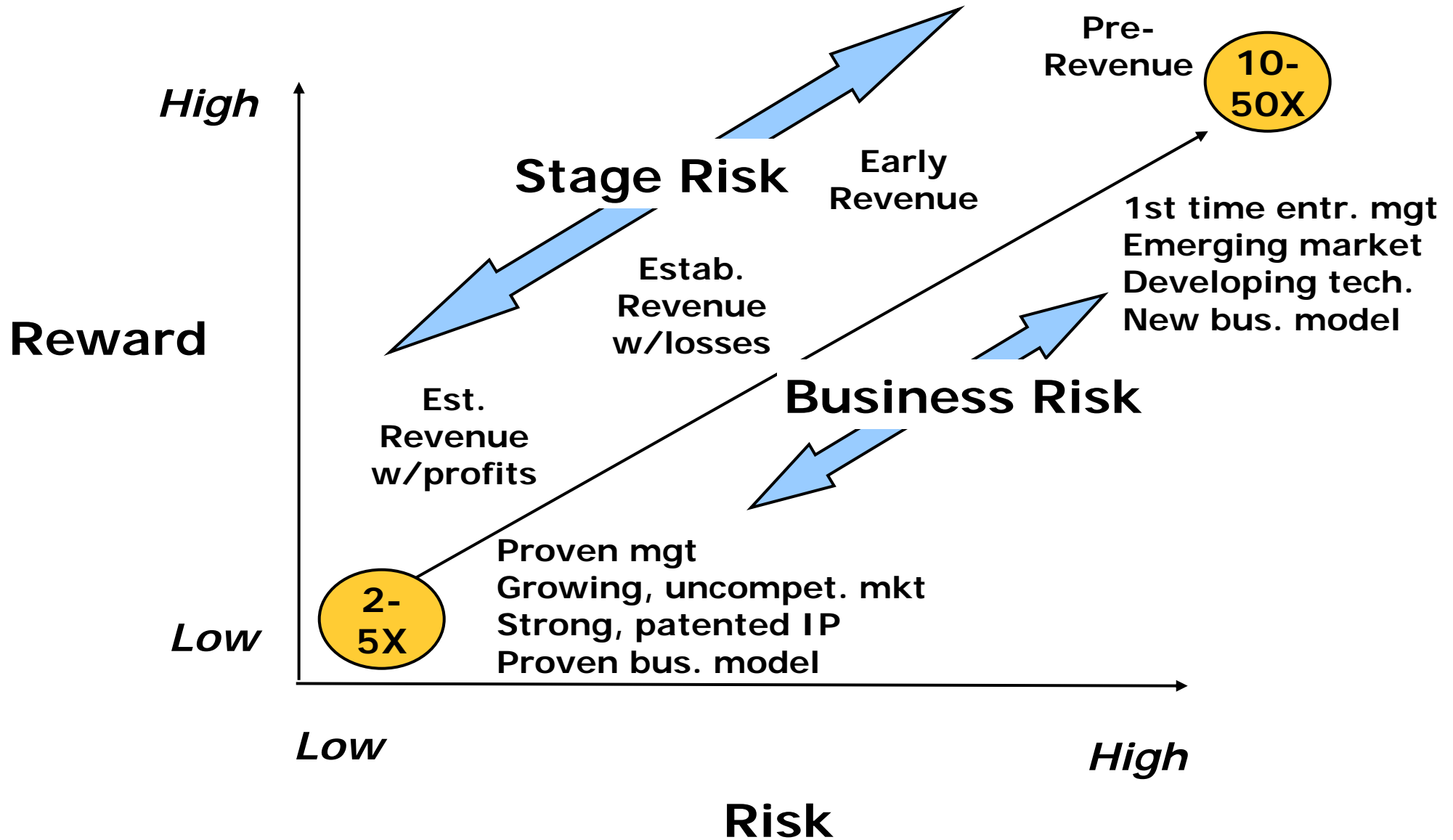
- No legal contracts that affect value or equity position
- No outstanding litigation around intellectual property or other assets

Stage risk overlays weighted business risk

- **Early stage:** Pre-revenue; early revenue with losses
- **Development stage:** Established revenue with losses
- **Later stage:** Established revenue with profits

Stage	Risk	Return multiple
• Early	• Highest	• 7 + X
• Development	• Medium	• 4-7X
• Later	• Lowest	• 2.5-4X

Reward follows risk



Agenda

- Background
 - Purposes and sources
 - Debt v. Equity
- Venture capital
 - Process and Valuation
- Government funding
 - SBIR Grants
- Regional VC Funds
 - Fresh Tracks Capital
 - CEI Community Ventures

Innovation Soup: SBIR

Growth Financing Workshop

18

Mark Blanchard
Technology Development Advisor
VT Small Business Development Center



On Today's Menu

- Acronym Appetizer
- How to get service
- 3 Course Meal: SBIR Over Easy
- Aids to Digestion / Avoiding Indigestion
- Dessert List
- Washing Up

A Rich Alphabet Soup

SBA

VDED

UVM

GMAC

EPSCoR

SBIR

DoD

DOE

DHS

NIH

USDA

ED

NSF

DOT

NIST

NASA

NOAA

DOC

EPA

and more and more....

and ... VtSBDC

A Partnership of Government, Education and
Business with a mission

To strengthen existing business entities and
assist start-ups through high quality, no cost
counseling, and high quality, affordable
training programs.

VtSBDC is ready to serve you

- State Office is at Vermont Technical College
 - Administration & Environmental Program
- Business Advisors housed at RDCs around Vermont
- Technology Development & Commercialization
 - Statewide Advisor working out of White River
 - Tech Incubator in Randolph
 - Assists firms with SBIR process, business strategy and locating resources

SBIR: Helping make rich stock

Tried & True recipe from the Feds.

To fortify your Innovation, try SBIR. Mix it in

- Early
- Mid-way
- Late, or
- Repeatedly

So what is this critical ingredient???

SBIR – No Ordinary Acronym...

- **S** – Set aside for **Small** business
 - 50% have < 25 employees, most common is 2 to 9 people
 - 50% have annual sales < \$500,000
- **B** – Grantee must be a for-profit **Business**
- **I** – Funds high risk **Innovation** R&D projects
- **R** – Funds over \$2.2 Billion in FY 2005 for **Research**

SMALL BUSINESS INNOVATION RESEARCH

Cooking up Money

- **Research** is the transformation of money into knowledge
- **Innovation** is the transformation of knowledge into **money!**

Geoffrey Nicholson, 3M retired

Three Layer Cake, Sort Of

- Phase I – Proof of Concept Study
 - \$70,000 - \$100,000
 - 6 months
- Phase II – Substantive R&D
 - Up to \$750,000
 - 2 years
- Phase III – Commercialization
 - You're on your own! {sort of} Typically private or non-SBIR government sources to get to market.

For the Birds ... Early Birds

- SBIR funds early-stage proof of concept
 - You have to know your stuff, but
 - You don't need a prototype
-
- SBIR does not fund existing products
 - SBIR is not for marketing

Two Flavors

- SBIR
 - 2.5% of federal agency R&D budgets set aside specifically for small business.
 - 11 federal agencies participate.
- STTR
 - Smaller program - 0.3% of federal agency R&D budgets and 5 agencies.
 - Requires small business collaboration with research institution.

SBIR / STTR Agencies



- DOD SBIR/STTR
- NIH SBIR/STTR
- NSF SBIR/STTR

- NASA SBIR/STTR
- DOE SBIR/STTR
- NSF SBIR/STTR
- USDA SBIR
- DOC SBIR
- EPA SBIR
- DOT SBIR
- ED SBIR
- DHS SBIR
- HUD SBIR

TOTAL ~ \$2.2 B
FY 2005

Vt Smorgasbord of Winners

- From 1984 - 2005, 56 Vermont businesses won 150+ Phase I & 52 Phase II grants worth over \$40 million.
 - They come in all shapes & sizes
 - ConceptsNREC – Rocket Fuel Turbo Pumps
 - Beeken & Parsons, - Character Wood Furniture
 - Microstrain Inc. – Remote Communication with embedded sensors
 - Biomosaics – Test for HTLV-1 Mediated in vivo t-cell expansion
- ... and they come from all around the State.

May You Partake?

- For profit business (or at least trying to be!)
- At least 51% U.S. owned & independently operated.
- Must be physically located in U.S.
- Principal Investigator's (PI) primary employment must be 51% with the small business.
- 500 or fewer employees, including affiliates.
- STTR – PI employment can be with research institution.

Not for those of little appetite!

- Highly competitive process, requires major time investment.
- Do your homework – look for fit between agency needs and your expertise.
- Talk to the program managers!
- Project should fit comfortably into biz plan.
- Time frame must be appropriate for company and market.

For a good helping...

1. Innovative concept with real world use
2. Know your stuff and state of the art
3. Great team
4. Read carefully, follow the solicitation rules
5. Creative content, not proposal format
6. Write well: be Succinct & Clear
7. Viable Business Plan

Once you get a taste

- Layer SBIRs from the same or different Agencies
- Use them to fund your core R&D
- Entice partners
- Intellectual Property is yours

Top 10 Desserts

10. Over \$2 Billion available.
9. Not a loan – no repayment.
8. Gives you recognition, verification & visibility.
7. Leveraging tool for attracting risk capital.
6. Fosters partnerships (corp., academic).
5. Seed money to fund high risk projects.

Top 10 (cont.)

4. Creates jobs and generates tax revenue.
3. You typically keep IP rights.
2. Gets you involved in the federal procurement process.
1. Where else are you going to find this kind of high risk money for a great idea?

*Credits for top 10 list: J. Hennessey, NSF, J. Goodnight, NIH, L. Eiden, DoEd, J. St. Onge, UVM

Get Cookin' with VT EPSCoR SBIR Phase 0

- Pre-seed grant program for prelim. data
- Up to \$10,000
- Solicitation for 2006 Coming mid-Feb., closes mid-March.
- Since 1992, 120 awards totaling close to \$800,000
 - Generating \$9 million in follow up funding
- www.uvm.edu/EPSCoR

Piqued your appetite?

- VT SBIR Outreach Program will help!
 - www.thinkvermont.com/sbir/index.cfm
 - Mark Blanchard, SBDC Tech Advisor
 - Mblancha@vtc.edu
 - Paul Hale, Ph.D., VT Technology Council
 - Paul.hale@uvm.edu
 - SBIR Mentors
- www.SBIRWORLD.com & Agency Websites

There's help in the kitchen

Email Me

mblancha@vtsbdc.org

Call Me

802-296-2321 x 164

Agenda

- Background
 - Purposes and sources
 - Debt v. Equity
- Venture capital
 - Process and Valuation
- Government funding
 - SBIR Grants
- Regional VC Funds
 - Fresh Tracks Capital
 - CEI Community Ventures



FreshTracks Capital L.P.

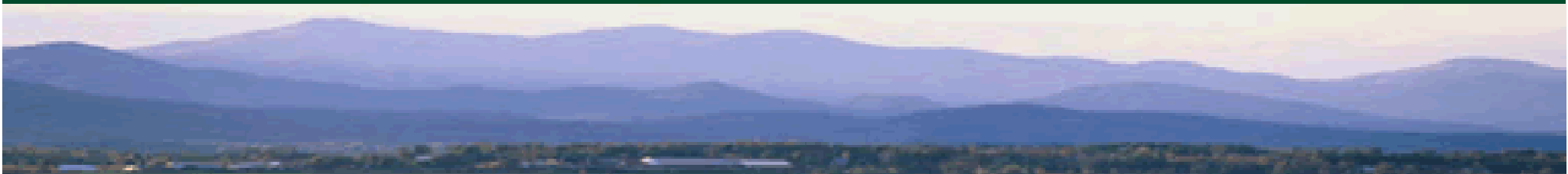
January 11, 2006

802-388-6283

www.freshtrackscap.com

P.O. Box 927

Middlebury VT 05753



FreshTracks History

- Middlebury venture capital firm founded in 2001
- \$11 million fund with over 50 limited partners
- Co-investment partnership with Village Ventures adds another \$4 million
- “Core Geographical Market” focus:
 - Vermont
 - New Hampshire counties bordering Connecticut River
 - New York Counties to west of Lake Champlain



Investment Activity to Date

- 80% of capital committed to 11 portfolio companies
- 6 “core geographical market” portfolio companies.
- 5 “syndicated investments”
- 80% of dollars to date invested in “core geographical market”
- Investment size range:
 - \$250 thousand to \$1.5 million in any “core market” investment
 - up to \$350 thousand in any syndicated investment.



Core Market Investments to Date



Shelburne



So. Burlington



Charlotte



Randolph



Hanover



West Lebanon



FreshTracks' Venture Investment Strategy

AVOID

- Retail, restaurant and real estate sectors
- “Turn-arounds” propping up old line manufacturing
- Low margin businesses

SEEK OUT

- Strong Mgmt Team with Domain Experience
- Large Growing Market
- Proprietary Technology/ Defensible Product or Service. Innovation is key
- Attractive business model
- Scalability to \$25 million in sales





Burlington, VT
January 11, 2006

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)

- 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

- \$20M

- \$10M

Avg. investment

- \$1M

- \$500-750K

Geographic focus

- Eastern Seaboard (Primarily New England)

- ME, NH and VT (with geographic and size constraints)

Contact info

- Nat Henshaw
(nvh@ceimaine.org)
- Mark Kaplan
(mdk@ceimaine.org)

- Michael Gurau
(mhg@ceicommunityventures.com)
- Michael Burgmaier
(mcb@ceicommunityventures.com)



**COMMUNITY
VENTURES**



Equity plus...

**Private
Investors**

e.g, Banknorth,
Ford Foundation,
VT Community
Foundation

\$5M

SBA

\$5M

**OA Funders
Cash,
In-kind**

e.g, UVM, Chittenden
Bank, Yale-Goldman
Sachs

\$1.5M

\$1.5M

**\$10M Equity
Fund**

**\$3M Operational
Assistance Pool**



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



COMMUNITY
VENTURES



Current Portfolio



Burlington



Pittsfield



Whiting



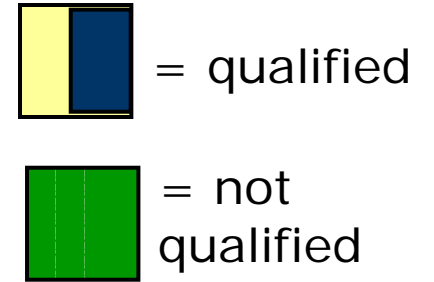
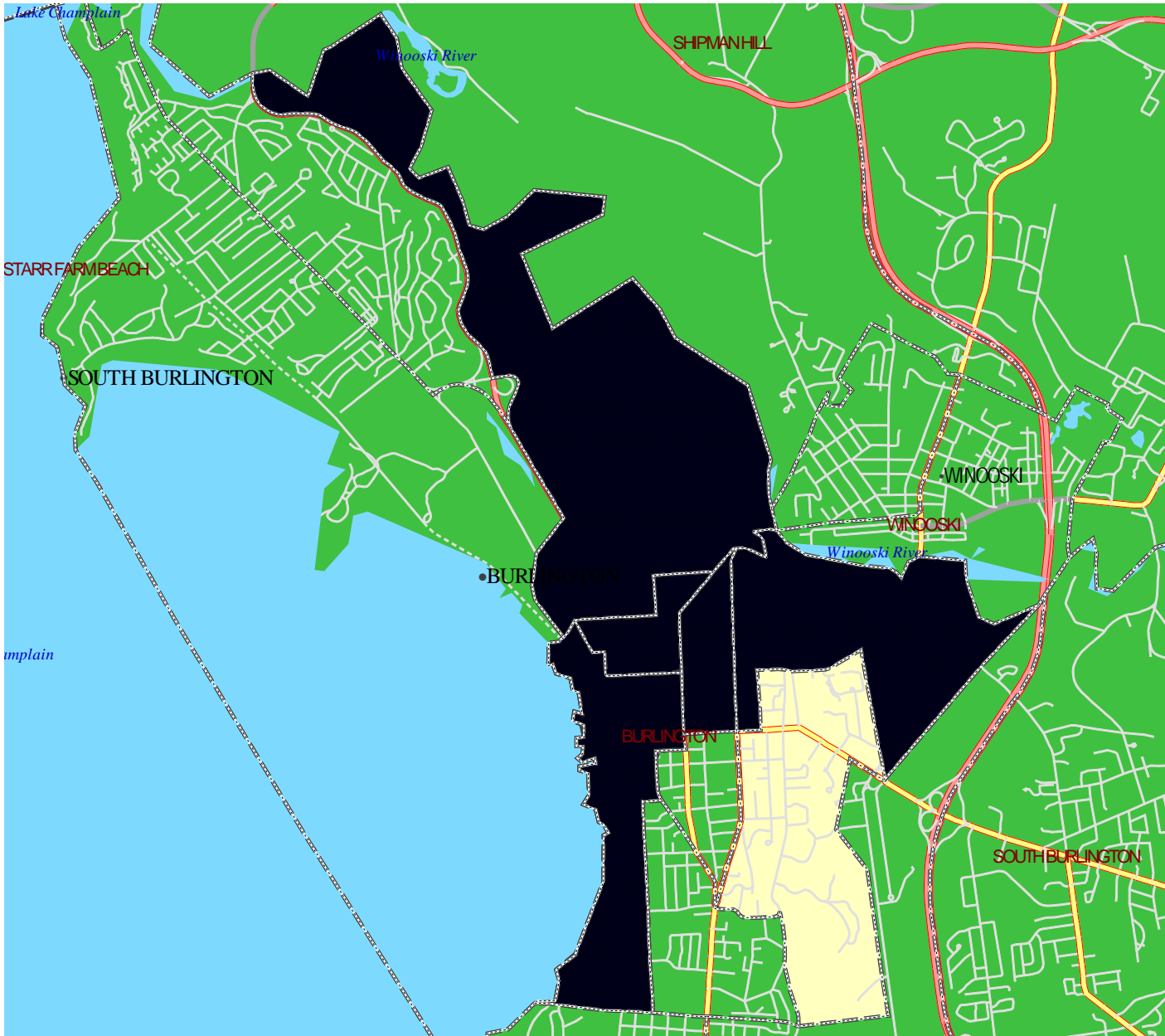
Portland



COMMUNITY
VENTURES



Qualified Burlington Tracts





COMMUNITY
VENTURES



Other qualified areas in VT

- St. Albans (downtown)
- Lamoille County (Stowe)
- Rutland
- Brattleboro
- Northeast Kingdom (Orleans, Caledonia, Essex Counties)
- Bellows Falls
- Poultney/Wells

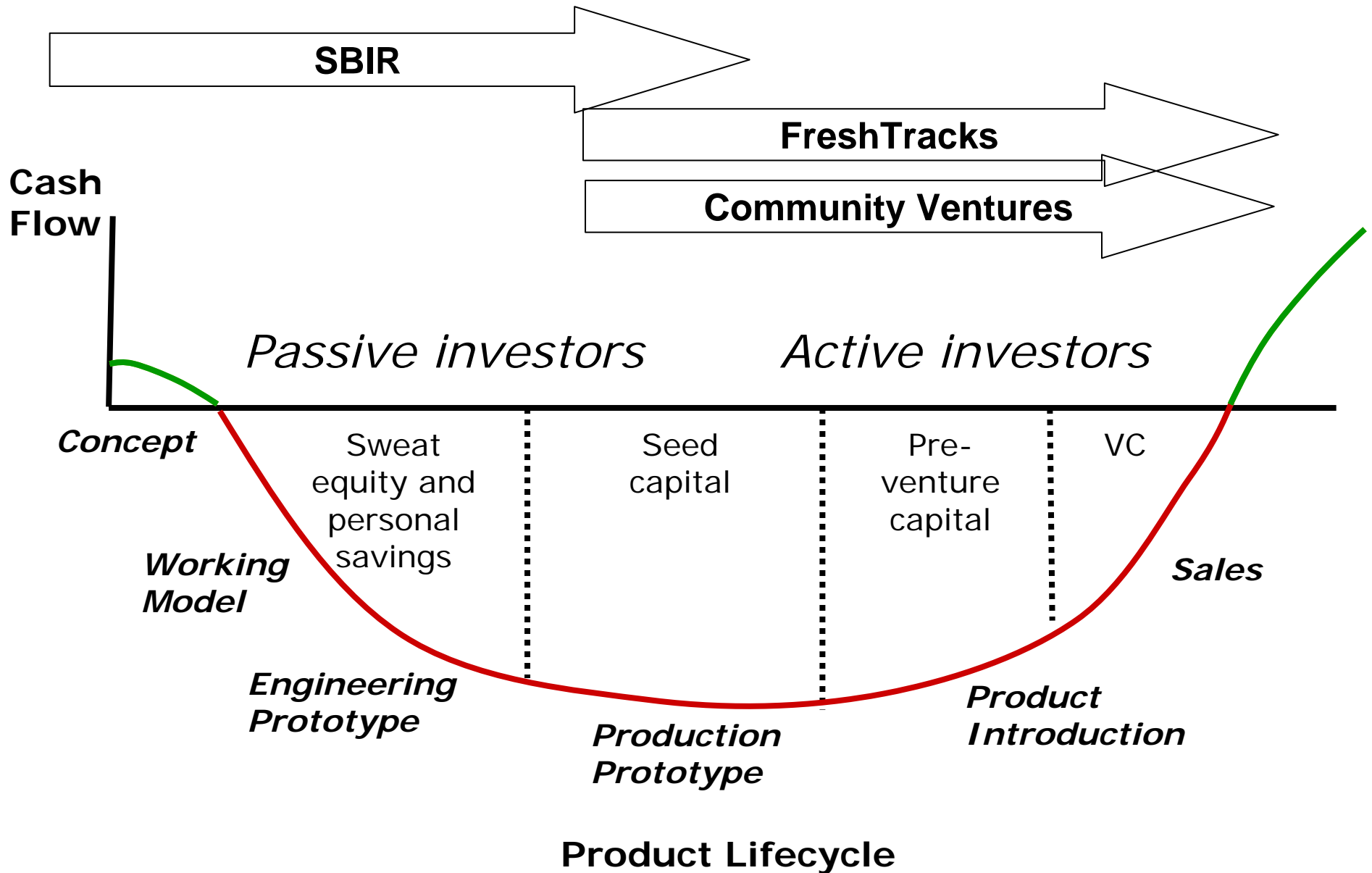
Seeking venture capital – considerations

- 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
 - Loans (Banks, State/Local economic development groups – e.g., VEDA)
 - SBA and SBDCs
 - Tax credits
 - State grants (Community Development Block Grants)
- Consider your objectives when evaluating financing sources
 - Personal
 - Professional
 - Financial

Where the funds fit on the Valley of Death



Thank you to our sponsors and your time



GALLAGHER, FLYNN & COMPANY, LLP



Vermont Business Center
at the School of Business Administration



CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS