

MAINE STATE LEGISLATURE

The following document is provided by the
LAW AND LEGISLATIVE DIGITAL LIBRARY
at the Maine State Law and Legislative Reference Library
<http://legislature.maine.gov/lawlib>



Reproduced from scanned originals with text recognition applied
(searchable text may contain some errors and/or omissions)

small enterprise growth fund



Small Enterprise Growth Fund

**Periodic Report to the Governor
and the
Maine Legislature**

**Respectfully submitted
by the
Small Enterprise Growth Board**

MAY 2003

**Distributed at the request
*Senator Lynn Bromi***

small enterprise growth fund



John F. Burns, CFA, Fund Manager
john@segfmaine.com

June 4, 2003

Dear Governor Baldacci and Members of the Legislature:

As the Chairman and Vice Chairman of the Small Enterprise Growth Board (SEGB), we are happy to submit this *Periodic Report* to you on the status and successes of the Small Enterprise Growth Fund (SEGF).

Since inception, there have been over 130 applications to the Fund. There have been several multiples of that number of companies with whom we work that do not get to the point of formally submitting an application. As you'll see in the attached *Report*, the Fund has invested over \$6.9 million in twenty-four Maine companies *with the potential for high growth and public benefit*. These financings have brought over \$30 million of private equity investment to Maine companies, investment capital that has enhanced the State's economy and helped to create and foster an environment for the private equity market. The mission of the SEGF is "to provide resources to attract, support and develop eligible small businesses that will contribute to the prosperity of Maine". The SEGB seeks to accomplish its mission in partnership with other public and private entities engaged in the entrepreneurial marketplace in Maine, including the Finance Authority of Maine (FAME), the Maine Technology Institute (MTI), the Small Business Development Centers, Maine's DECD, the State's Applied Technology Development Centers, privately managed venture capital funds, individual investors, and entrepreneurs and small business owners throughout the State. We can speak for the Board when we say that we are proud of what we have been able to accomplish with the Fund to date. We think we have developed a process that is flexible and provides entrepreneurs with a rapid decision process and a fair rate of return to the taxpayers of the State of Maine for what is considered a relatively high-risk investment fund.

As you know, there are many more opportunities in the State of Maine for entrepreneurs to grow and expand some exciting businesses. We believe that the original premise for the creation of the Fund still holds true: private equity capital for Maine companies is very difficult to source. Privately managed venture funds typically seek to place \$1 million or more per investment, and the number of those funds focused on Maine is still quite small. As you will see in the attached Report, the Fund is almost fully invested. Of companies still active in the portfolio, there are several that have the potential to provide a nice return to the Fund, but those liquidity events are probably still several years away (most investments are entered into with a 5-7 year time horizon, and the Fund is just 5 year old). We would respectfully request that you consider providing the Fund with \$5 million of additional seed capital, perhaps with proceeds from a 2004 economic development bond issue. An additional note about efficient fund size: most private venture funds

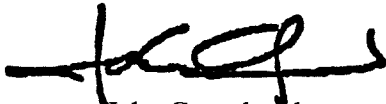
5 Community Drive
PO Box 619
Augusta, Maine 04332-0619
TEL: 1-800-228-3734 / 207-621-4050 ext. 231
FAX: 207-623-0095
E-Mail: info@segfmaine.com
URL: www.segfmaine.com

are in excess of \$20 million, so that with a reasonable expense ratio, the Fund is able to be actively managed to heighten the value added to portfolio companies and enhance the potential for returns from these risky investments. Adding capital to the SEGF will allow greater resources to be devoted to continuing to enhance the entrepreneurial climate in Maine, and enhance the opportunity for returns on investment. We certainly understand the difficult fiscal situation in the State, and applaud your decision to proceed with an economic development bond issue in 2003. Although no promises can be made with regard to the financial returns that the Small Enterprise Growth Fund might generate, when an early stage company is successful the return on the initial investment can be many times that of the actual investment, and this would prove true for the State's investment as well.

We have enjoyed working on this Board. The SEGB members are a dedicated group that is devoting a tremendous amount of volunteer time from their very busy schedules to make this Fund successful.

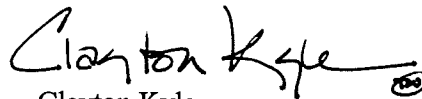
The SEGB would also like to thank you for your support. We are always ready and willing to engage in dialogue and maintain a strong partnership with the administration and the legislature to ensure that the SEGF continues its important role in the State's economic development strategy.

Sincerely,

A handwritten signature in black ink, appearing to read 'John Cancelarich', with a stylized, flowing script.

John Cancelarich
Chairman

Sincerely,

A handwritten signature in black ink, appearing to read 'Clayton Kyle', with a stylized, flowing script and a small circular mark at the end.

Clayton Kyle
Vice Chairman

cc: Members of Small Enterprise Growth Board
Charles Spies, CEO, FAME

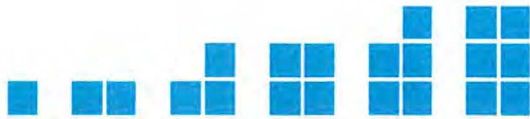
small enterprise growth fund



Small Enterprise Growth Fund

May 2003

Periodic Report to the Governor
and the
Maine Legislature



Investing in Maine companies
with the potential for high
growth and public benefit

Small Enterprise Growth Fund

Background Information:

- ❑ Established by the Maine Legislature in 1996 as an Instrumentality of the State, the Small Enterprise Growth Fund (SEGF or Fund) invests in small Maine companies with *the potential for high growth and public benefit*. SEGF makes direct equity investments in Maine companies approved through a screening process, detailed due diligence, and negotiated terms of investment.
- ❑ SEGF addresses a critical need in the state's economic development strategy, providing risk capital to select companies that have the potential to become significant contributors to the state's future economic health. The size, location, and amount of capital needed by these companies often make it very difficult for them to attract capital from other sources. The Fund's matching requirement assists in bringing other capital providers to these small and exciting companies, paving the way for further capital investment. The Fund enhances Maine's environment for the flow of risk capital to Maine companies.
- ❑ SEGF is an integral part of the state's evolving network of entities involved in promoting entrepreneurship, management skill development, and sound corporate practices, critical elements of a successful business climate in Maine.
- ❑ The Small Enterprise Growth Board (SEGB), an eleven-member all-volunteer body appointed by the Governor, has statutory authority for the Fund. The Board reports at least annually to the Business, Research and Economic Development Committee of the Legislature and to the Governor.
- ❑ SEGF was funded with \$8 million by two one-time investments by the State; \$5 million from bond issue proceeds in 1997 and \$3 million from a one-time direct appropriation in 2000.
- ❑ SEGF is a member of the Community Development Venture Capital Alliance (CDVCA), a national organization of entities that promotes use of the tools of venture capital to create jobs, entrepreneurial capacity and wealth to advance the livelihood of low-income people and the economies of distressed communities.

Accomplishments:

- ❑ Since inception, SEGF has invested \$6.9 million in twenty-four Maine companies. Combined with matching funds from co-investors, SEGF has played a part in financings that have brought over \$30 million in private industry investment to Maine companies.
- ❑ The Fund has had capital returned from several investments, has had a strong equity return from one investment, and several of the 16 companies still active in the portfolio hold the promise of strong returns on the SEGF investment.
- ❑ For companies that are still active in the portfolio, roughly 278 net new jobs have been added since the SEGB investment, an increase of 115%. When one includes the jobs that still exist, despite the failure of the corporate entity, the number of net new jobs is roughly 1,000.
- ❑ Companies in which the SEGB has invested have gone on to attract equity investments from eight venture capital funds, entities that have capital for exciting companies and now are open to Maine deals.
- ❑ Considerable mentoring and corporate oversight has been provided to portfolio companies, enhancing the opportunity for strong execution of their business plans and success of their business. In providing this early stage company support, the SEGF has a strong working relationship with other entities, both state and private, including FAME, MTI, CEI and its venture subsidiaries, DECD and their ATDC's, the regional economic development entities throughout the state, and private venture capital firms.

Double Bottom Line: In keeping with the intent of the enabling legislation, the SEGB operates the Fund with a double bottom line: financial return and public benefit return. The financial return requires patience of capital, typically 5-7 years from investment. The public benefit return can begin to be realized sooner, and is usually expressed in jobs created and increase in tax base, but can also be evidenced by a positive evolution in the climate of entrepreneurship, the growth and development of corporate managements skills, and the multiplier effects that successful Maine firms will have in spawning additional successful Maine firms. The SEGF is a critical component of the enhancement of the state's business finance offerings, and an important piece of enhancing Maine's business climate.

John F. Burns, CFA
Fund Manager
P.O. Box 619 Augusta, ME 04332-0619
(800) 228-3734
www.segfmaine.com

Small Enterprise Growth Fund Portfolio of Investments

The next seven pages of this report contain the following information:

- Schedule of Investments
- List of companies by current stage of company development
- Investment dollars by company growth stage
- Applications, number of investments, and dollar amount of investments by Maine County
- Investment dollars by industry and growth stage
- Balance available for future investments from the SEGF
- A list of the current Small Enterprise Growth Board

In order to better understand the charts and graphs that follow, this glossary of terms should be helpful:

Phases of a Company's Life:

- ❑ *Start Up*
The product is developed and the initial marketing is done, but there are no sales at this time. The company is organized; the business plan is prepared and key management is assembled.
- ❑ *First Stage*
The company has expended initial capital. Prototype is developed and initial marketing is done. Money is needed for manufacturing and sales.
- ❑ *Second Stage*
Although the company is not yet profitable, working capital is needed for initial expansion. Accounts receivable and inventory is growing. There is a potential for strategic partners.
- ❑ *Third Stage*
This is the time of major expansion. Sales volume is increasing and the company is at or near profitability. Money is needed for expansion, marketing, working capital or product improvement.

**SMALL ENTERPRISE GROWTH FUND
SCHEDULE OF INVESTMENTS AND ACTIVITY
FY2003**

Company	Location	Business Type	Investment Closed	Cost	Employees					
					Investment		Current		Projected 2004	
					FT	PT	FT	PT	FT	PT
America's Premier Fundraisers	Portland	Mgr rep for fundraisers	03/12/03	\$ 50,000	3	1	9	1	12	1
			04/26/01	\$ 150,000						
Angela Adams Designs, LLC	Portland	Interior Design	10/08/02	\$ 400,000	12		12		18	
BlueTarp, Inc.	Portland	Builder/Contractor Credit	05/20/03	\$ 350,000	11		11		14	
Capricorn Products, Inc.	Scarborough	Biotech	10/16/98	\$ 150,000	7		9		9	
Chemogen, Inc.	S. Portland	Biotech	12/26/01	\$ 250,000	4		7		12	
			01/10/03	\$ 88,148						
Coast of Maine, Inc.	Ptld / Marion	Mktg premium organic fertilizer	02/28/00	\$ 85,000	6		6	6	6	2
Common Census	Westbrook	Insurance Software	02/29/00	\$ 500,000	6		11		12	
ComNav Engineering, Inc.	Portland	Electronic Mfg	10/13/00	\$ 90,000	13		25	1	30	1
Intellicare America, Inc.	S. Portland	Health Care Services	08/26/98	\$ 150,000	20		150	100	180	120
			11/16/99	\$ 350,000						
			07/26/02	\$ 250,000						
			06/03/02	\$ -						
InterSpec, Inc.	Portland	Construction Specwriting	06/28/01	\$ 200,000	4		6		10	
Pantheon Guitars, LLC	Lewiston	Guitar Manufacturing	05/14/01	\$ 238,000	8		15		26	
			08/22/02	\$ 150,000						
Phylogix, Inc	Scarborough	Biotech; tissue protection/repair	02/13/03	\$ 250,000	6		8		12	
			11/16/01	\$ 150,000						
RecruiterNet, Inc.	Portland	Software for Staffing Industry	06/01/01	\$ 250,000	12		19		25	
Septitech, Inc.	Gray	Environmental / ww treatment	03/07/01	\$ 250,000	19		16		25	
Thistle Marine, LLC	Lamoine	Fishing / Hardware & software	05/04/01	\$ 125,000	3	1	1	1	4	1
Warrior (Aero-Marine), Inc.	Scarborough & UK	Aircraft design and manufacture	04/23/03	\$ 300,000	15		15		25	
Sub-Total				\$ 4,776,148	149	2	320	109	420	125

Employee Growth 115%

CLOSED, NOT DISBURSED

America's Premier Fundraisers	Portland	Mgr rep for fundraisers	\$ 50,000
Interspec, LLC	Portland	Construction Specwriting	\$ 100,000
Warrior (Aero-Marine), Inc.	Scarborough & UK	Aircraft design and manufacture	\$ 200,000
Sub-Total			\$ 350,000

APPROVED, NOT CLOSED:

Sub-Total			\$ -
------------------	--	--	-------------

RETURNS TO FUND

				cost			
Phytex, LLC	Portland	Phytase animal feed additive	10/04/01	\$ 100,000	1	1	2
Phytex, LLC	Portland	Phytase animal feed additive	12/16/02	\$ 50,000			
				\$ 150,000			

CHARGE OFF INVESTMENT:

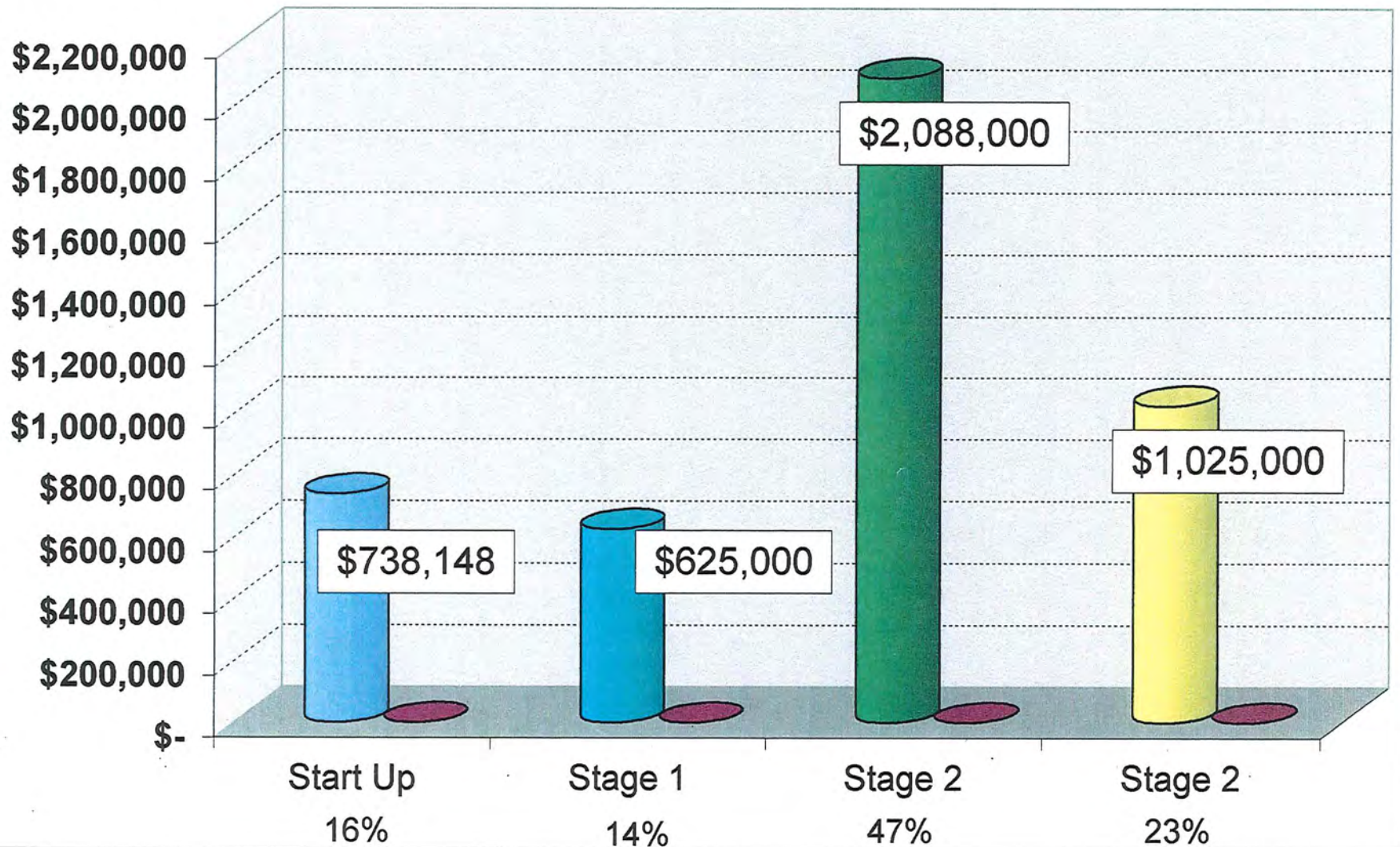
				cost	recovered	% recovered
Kreative Technical	S. Portland	Software	11/03/97	\$ 150,000	\$0	0%
Envatec, LLC	S. Portland	Environmental Monitoring	12/11/98	\$ 150,000	\$2,521	2%
MacMahon Tool & Mfg., Inc.	Limerick	Manufacturer Precision Tool	08/31/98	\$ 150,000	\$131,033	87%
EnvisioNet Computer Service	Augusta	Computer Services	12/02/97	\$ 150,000	\$122,075	81%
Yachtsaver, Inc.	Round Pond	Manufacturer Flotation Device	10/12/98	\$ 150,000	\$5,416	4%
Lyceum, LLC	Portland	Educational Software	03/08/99	\$ 500,000	\$137,192	27%
HCI Systems, Inc.	Kennebunk	Tech based management system	07/18/00	\$ 500,000	\$0	0%
Sub-Total				\$ 1,750,000	\$398,237	23%

Capital Invested (or pending investment) to date: **\$ 6,876,148**

SEGF Current Portfolio Companies by Current Stage of Development

Stage	Company	CEO	Location
Start Up	Chemogen, Inc.	Vladimir Koulchin	South Portland
	Phylogix, Inc.	Jeffrey Moore	Scarborough
	Warrior (Aero-Marine), Inc.	David Verrill	Scarborough & UK
Stage 1	Common Census, Inc.	Daniel Freund	Westbrook
	Thistle Marine, LLC	Richard Arnold	Ellsworth
Stage 2	Angela Adams Designs, LLC	Angela Adams	Portland
	Blue Tarp, Inc.	Brian Rigney	Portland
	Interspec, Inc.	Michael Brennan	Portland
	Intellicare America, Inc.	Victor Otley, III	South Portland
	Pantheon Guitars, LLC	Patrick Theimer	Lewiston
Stage 3	America's Premier Fundraisers, LLC	James Mazur	Portland
	Capricorn Products, Inc.	Jane Havey	Scarborough
	Coast of Maine, Inc.	Carlos Quijano	Portland & Washington Cnty
	ComNav Engineering, Inc.	Martin Geesaman	Portland
	RecruiterNet, Inc.	Robert J. Neveu	Portland
	SeptiTech, Inc.	Dan Ostrye	Gray

SEGF CURRENT PORTFOLIO BY STAGE OF GROWTH

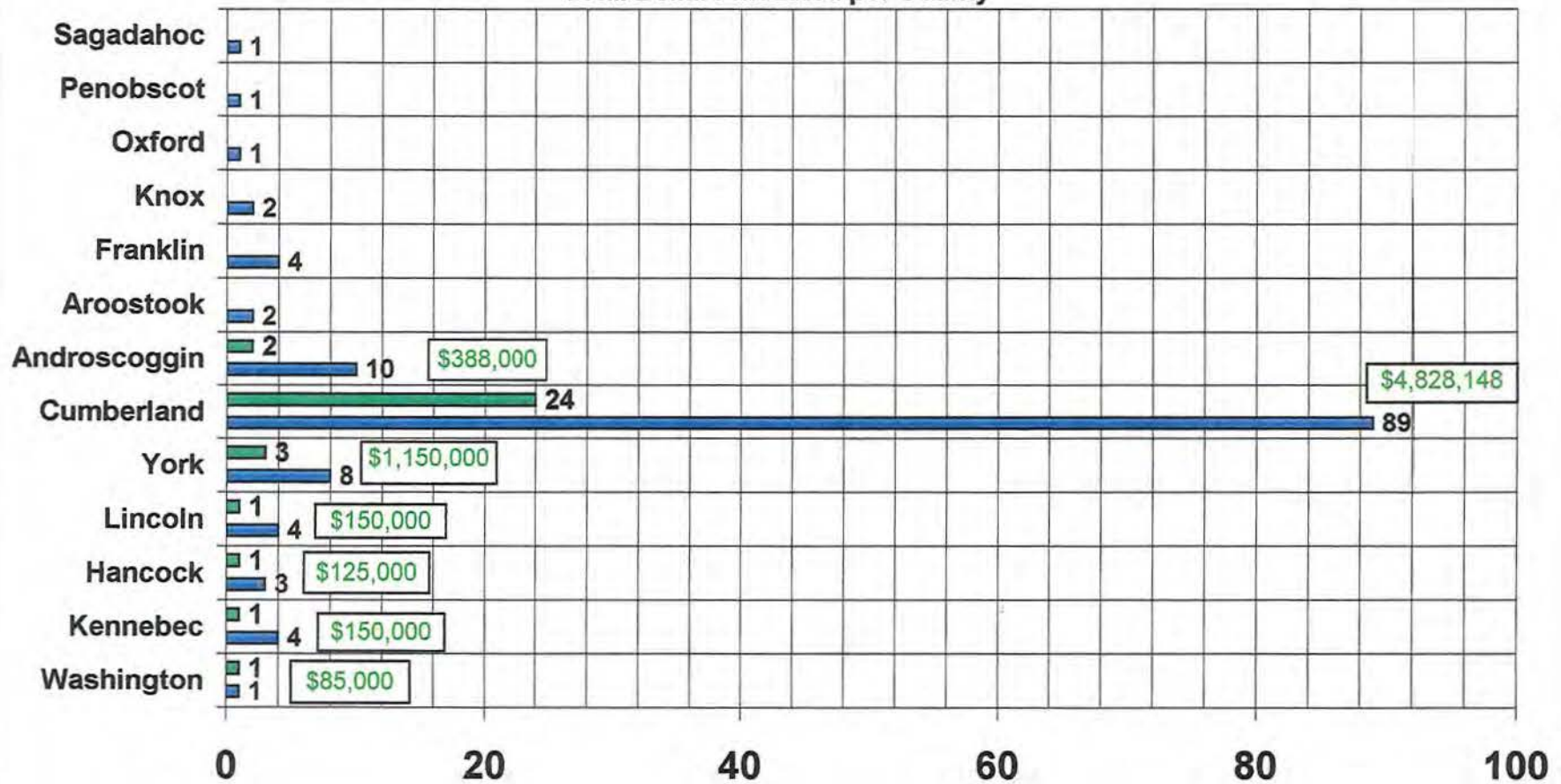


SMALL ENTERPRISE GROWTH FUND

Applications by County (Blue)*

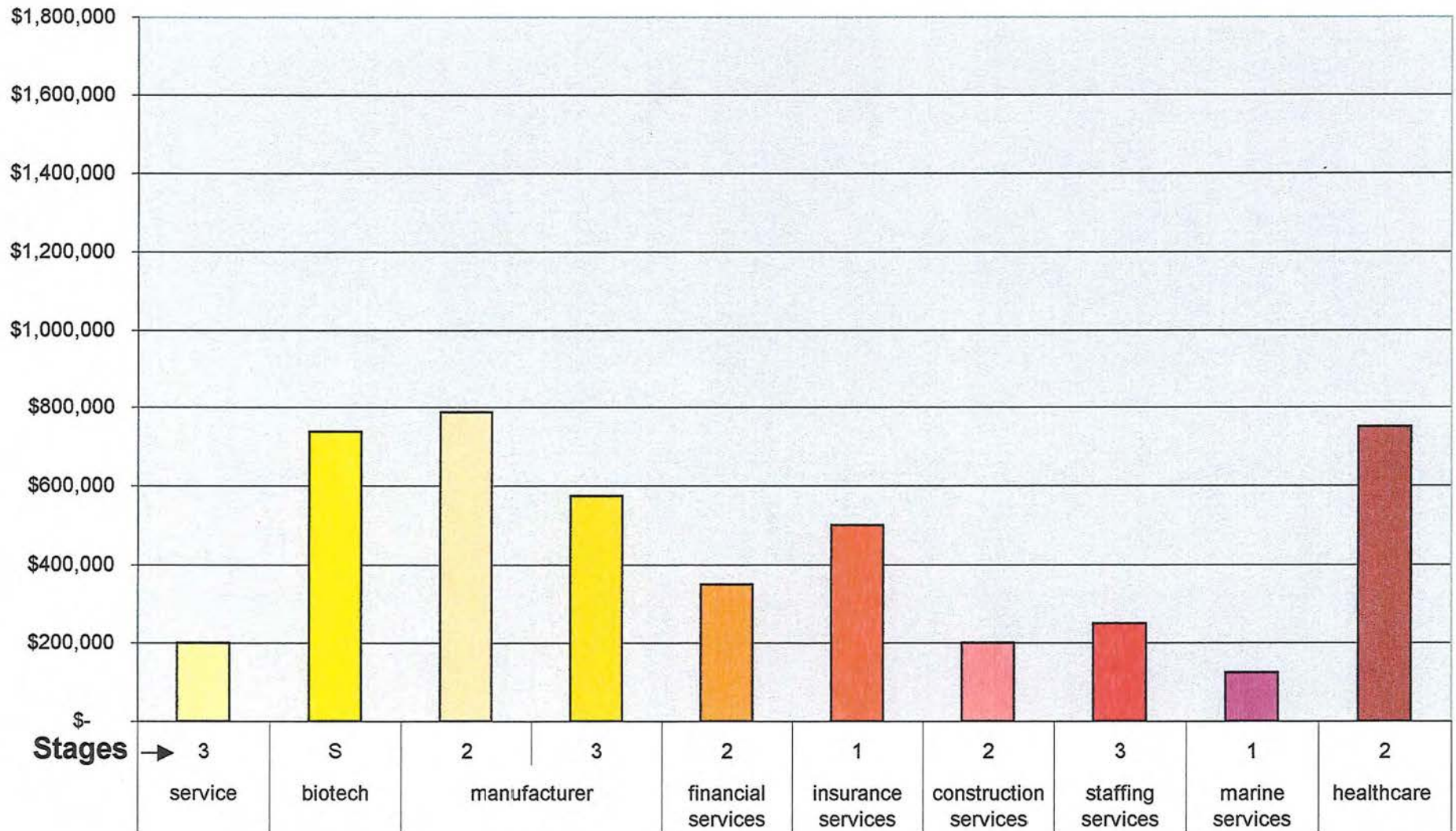
Investments per County (Green)*

Total Dollars Invested per County*



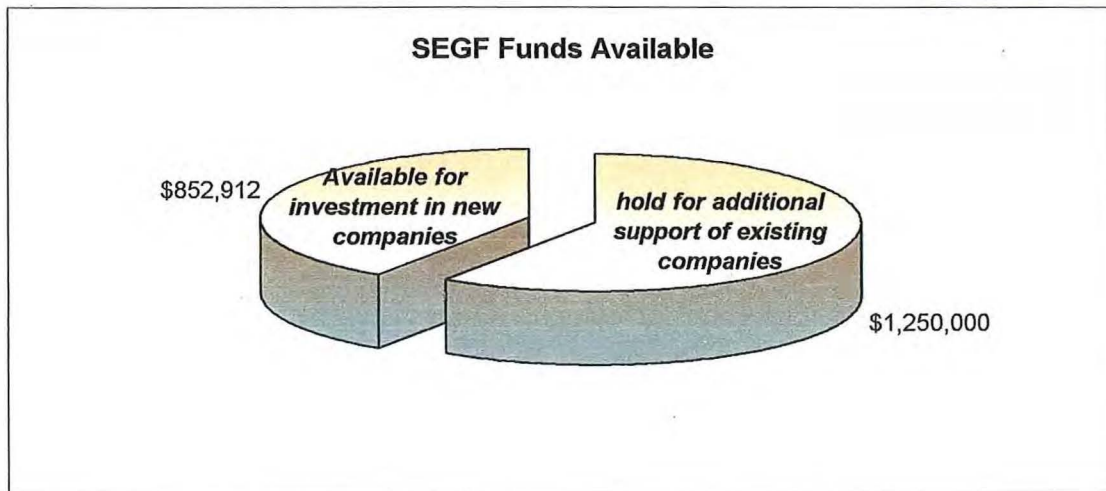
* Since inception

SEGF CURRENT INVESTMENTS BY INDUSTRY AND GROWTH STAGE



Balance available for future investments from the SEGF

FISCAL YEAR 2003	
<i>Available Cash as of 4/30/03</i>	\$ 2,941,112
<i>Less closed/approved, not disbursed</i>	\$ (350,000)
<i>Less Annual expenses (x2)</i>	\$ (488,200)
<i>Less Investments Closed in May 2003</i>	\$ (350,000)
FUNDS YET TO BE INVESTED	\$ 2,102,912
<i>Amount that the SEGB will hold for additional support of existing companies</i>	\$ 1,250,000
<i>Therefore, amount available for new investments (as of June 2003)</i>	\$ 852,912



Small Enterprise Growth Board

John Cancelarich, Chair

Presque Isle, ME

Clayton Kyle, Vice Chair

Freeport, ME

Bruce Coggeshall, Esq.

Managing Partner, Pierce Atwood

Portland, ME

David R. Fernald

CEO, Terralink

Portland, ME

Tracy L. Hawkins

Vice President, Fleet Bank

Portland, ME

Thomas C. LeVine

Calisto, Ltd.

Rockport, ME

Marlene K. Long

President/Sales Manager

Echo Vision

Newcastle, ME

Frederick Rector, III

Camden, ME

Diane E. Sammer

Harpswell, ME

Stephen K. Smith

Partner, Masthead Venture Partners

Portland, ME

Janet Yancey-Wrona

Director, Maine Technology Institute

DECD Commissioner's ex-officio seat

Gardiner, ME