

State Seed Capital Network

A Game Changer for Local Development

The State Small Business Credit Initiative (SSBCI) is a \$1.5 Billion component of the Small Business Jobs Act of 2010 to support state small business capital programs that support lending and investing in small businesses.

As part of an overall small business capital program, some states may elect to use the resource to expand the local network of community-based angel investment groups and university-affiliated seed funds. Angel investors can form the bridge between early development and the later rapid growth phases of an emerging business, filling critical gaps in financing. An active network of angel investors in a region can help drive the opportunity for entrepreneurs to find the capital they need to grow and prosper, and to create jobs.

1. **Angel Capital Network (ACN)** – a network of seed and angel funds to support startup and seed stage companies
2. **Collateral Support Program (CSP)** – providing cash collateral to help small businesses secure working capital loans

#1 - Building a Strong Seed Capital Network

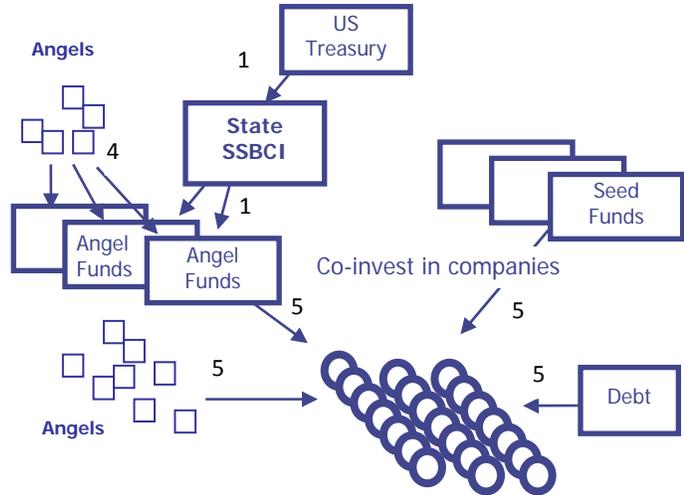
Angel investors form the bridge between early development and the later rapid growth phases of an emerging business, filling critical gaps in financing. An active network of angel investors in a region can help drive the opportunity for entrepreneurs to find the capital they need to grow and prosper. Angel networks allow individual investors to meet regularly to review prospective deals, but invest individually rather than as a group. The effectiveness of angel networks, however, varies and often depends on one or two members of the group who serve as thought leaders. In contrast, angel funds are groups of investors who pool their money and invest as a fund, sometimes co-investing with individual members of the group. Working as a fund has advantages for both angel investors and entrepreneurs. For entrepreneurs, they know that when they approach a fund there is committed capital available for investment. For angel investors, an organized fund mitigates risk as angels have their money pooled with others across the entire portfolio as well as their individual investments.

Method

At the heart of this system is a method for catalyzing the formation of new member-managed angel funds, then facilitating careful investing by the fund members. The Angel Capital Network will help sustain these investors as they analyze, value, price, structure, negotiate, make and monitor their projects, while at the same time helping them connect with national sources of technology, capital and business-building talent. The program will operate as a network whereby individual funds will be encouraged to partner with other funds when considering investments, leveraging the knowledge, connections and capital among the groups.

Targeted Impact: 10 to 1 and higher

Each SSBCI \$1 invested in an angel or seed fund will typically be matched by \$4 from private investors. As funds are invested in companies, individual angels will typically co-invest an equal amount. As some companies succeed and grow they will attract capital from later stage venture investors and lenders. 10:1 leverage is achieved as investments are made in new businesses.



#2 - Extending Collateral Support to Small Businesses

The Collateral Support Program (CSP)

supports loans to growing companies, with a focus on manufacturers. Growing companies need capital, and often seek to borrow for this purpose. Many companies however, find this challenging as they work to rebuild from the recession and as banks have moved cautiously to make new loans. Additional cash collateral, in the form of a CD held at the lender’s institution, serves as a powerful inducement to lenders seeking to mitigate risk on new loans to small businesses.

Method

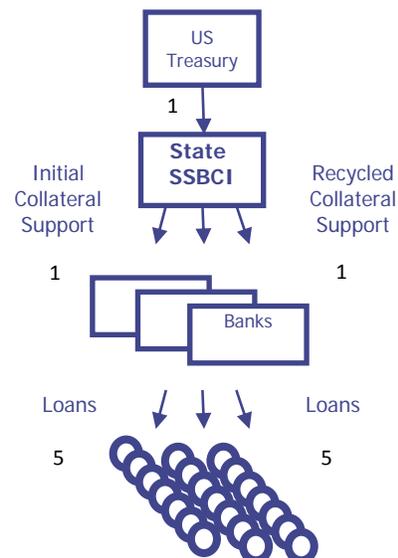
The Collateral Support Program works with commercial banks, credit unions and Community Development Financial Institutions across the state. Lenders will find borrowers they would like to support, but which lack sufficient collateral. Lenders will request collateral support for up to 50% of the proposed credit line from the Collateral Support Program. If a loan fails, the lender would first liquidate its primary collateral. If a shortfall remains, the lender claims the collateral support to the extent of the gap, up to the amount of the CD. The Collateral Support Program supports small businesses of all types serving a wide variety of industry sectors including cleantech, bioscience, information technology, and aerospace and defense.

Targeted Impact: 10 to 1 and higher

Over time, each \$1 pledged by the CSP will leverage about \$10 in loans as capital is deployed, recaptured and redeployed many times.

Allocations and Timing

The SSBCI program requires federal funds to be initially deployed into businesses within two years. It will likely take time to form seed funds and angel funds, and more time to get capital invested in companies. The Collateral Support Program can be implemented quickly, initially placing most of its capital in certificates of deposit serving as collateral support for small business loans. As private investors respond to the opportunity, the program will commit to seed funds and angel funds that meet the program criteria. Eventually, it is expected of the majority of SSBCI funds will be in seed and angel funds.



About DCN

DCN is a professional firm devoted to building problem-solving organizations. The firm specializes in Technology Commercialization; Intellectual Property/Market Assessment, Patent Strategy, Seed and Venture Investing, Private Equity, Development Finance, and Knowledge based Economic Development.

DCN currently manages over \$16 Million in SBCI funds for the states of North Dakota and Wyoming serving the small business needs of a combined 53 municipalities. Nationally, DCN produces the WBT Innovation Marketplace, recently held in San Diego in partnership with CONNECT and the San Diego Regional Economic Development Corp. Since 2002 this event has sourced, screened and mentored over 700 companies and technologies from across the country and around the globe. Regionally, DCN produces venture forums in Oklahoma and Iowa connecting promising entrepreneurs with investors.

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