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In Favor of LD 743, "An Act To Extend and Improve The Maine Seed Capital Tax Credit Program"
Before the Joint Standing Committee on Taxation
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Senator Haskell, Representative Goode, Members of the Joint Standing Committee on Taxation, good morning, my name is John Burns. I serve as the Fund Manager of Maine's venture capital fund, the Small Enterprise Growth Fund. I appreciate this opportunity to testify in favor of LD 743, "An Act to Extend and Improve the Maine Seed Capital Tax Credit Program."

At SEGF, we purchase equity or near-equity securities in start-up, early-stage, and smaller established Maine companies. A key element of our investment policy is that we never invest alone. We must have co-investors alongside of us investing at least as much as the Fund. The pool of potential co-investors in Maine is dominated by individuals. There are only now three active venture capital funds located in Maine: SEGF, Coastal Ventures, and North Atlantic Capital (Masthead is now Boston centric and is fund is fully invested). North Atlantic has not invested in a Maine company in over a decade as their investment strategy focuses on later stage larger companies in select industries, not aligned with the Maine marketplace. Coastal Ventures is now operating its third fund, and will invest in perhaps 5-10 more companies before that fund is fully invested. Only some of those companies will be Maine companies. SEGF is the only fund actively seeking Maine based deals, but we need active co-investors. With so few funds in Maine, Maine's entrepreneurs, and we, rely heavily on the individual investor community for the critical capital they provide. Maine is fortunate in that it has a very robust, active and well managed formal group of high net worth (angel) investors, the

Maine Angels. These folks collectively solicit for deals, do research and analysis on opportunities, and follow companies in which members have invested, but they invest individually. Each individual must find the economics of the opportunity compelling.

Investing in early stage companies is risky. Many, many will never make it to sustainable profits. But companies with proprietary knowledge, scalable ideas and technology; these are the companies that can grow and provide a meaningful boost to a regional economy. Idexx was a local venture funded company. Blue Tarp, PutneyVet and CashStar are Maine companies that received and are receiving high-risk capital and now each provides scores of Maine jobs. We need to get capital to Maine companies that have special technology or a unique service for or approach to a market; companies that individually and collectively can make a meaningful impact on the prosperity of Maine.

So, I'm attempting to impress upon you the importance of the individual investor in this Maine early-stage investing marketplace. They are critical. The capital, as well as the knowledge, experience and contacts of their histories, are critical fuel for early stage Maine companies. But like you, folks that might invest in an early promising Maine Company has choices. They can buy stocks, bonds, real estate, etc. Why invest in a risky start up?

When we surveyed 20 individual investors in Maine, 71% said they are an active investor in Maine companies because of the Tax Credit. Almost all said it was very or extremely influential in their decision to invest. Eighty-five percent said it weighed heavily in their decision to invest in a Maine company rather than a non-Maine company.

Here's a story. Our most recent investment was in Pika Energy, a maker of home sized windmill and unique inverter systems. We did our "diligence", and decided that we could construct a deal that reflected the risks we saw. But we needed co-investors. With the ability to de-risk some of the investment through usage of the tax credits, several Maine Angels committed to the deal as well. We also got some NH investors into the deal, and the company was able to raise $600,000 to advance their company. As it turns out, Pika's investors received the last credits available.

Early stage Maine companies need every advantage to attract capital to their companies. Our survey of fourteen Maine companies showed that four of those had used the credits to raise 80-100% of the capital they'd brought in. Ten of the fourteen companies said they wouldn't have been able to raise funds without it, and another ten said they absolutely brought in additional capital because of the capital they raised with the credit.

From my vantage point as one who speaks every day to entrepreneurs and CEO's with companies at all stages, access to capital is one of the most pressing challenges they face. Banks require cash flow and or personal guarantees and are really not available to most early stage companies. De-risking the investment for Maine individual investors to encourage them to put their money behind Maine entrepreneurs is a strategy that has worked and should be given a chance to continue to work. The Maine Seed Capital Tax Credit Program is expertly administered by FAME, and I believe it will earn far more in payroll tax revenue and other direct and indirect benefits than the $2,200 per year for four years that the credit costs the State. The State credit is done after four years, the economic benefits from the jobs will, in many cases last much longer. Just the $9: $1 co-investment alone in companies that benefitted from the credit speaks to the power of providing an incentive to invest.

I thank you for your time and encourage you to send LD 743 out of Committee with a Unanimous Ought To Pass.