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For the right R.I. companies, capital is available

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Investment capital is available for growing Rhode Island companies in the early and middle stages of development, ranging from seed funding for startups to large federal research contracts, according to four local financing experts.

Investment gurus at a recent Brown Forum for Enterprise said companies that would significantly improve the Rhode Island economy by creating jobs are those most likely to be funded. These generally would be businesses needing capital infusions of at least \$250,000, with specific conditions tied to approval in some cases.

About 125 people attended the sold-out forum, "Early Stage Funding Sources," held Oct. 22 at the R.I. Center for Innovation & Entrepreneurship, One Davol Square, in Providence.

Robert J. Manning, president and owner of Gray's Point Investments, a private investment and development company, and a member of the steering committee of the Cherrystone Angel Group, based in Providence, explained that angel groups generally do not invest in startups. "Our sweet spot [at Cherrystone]" is taking an enterprise from the first to second stages of growth, he said.

Cherrystone was formed about eight years ago, and its typical investment is between \$300,000 and \$500,000, he said. Some angel groups focus on specific topics, such as health care or technology, but Cherrystone is a "generalist" group, Manning said. Most angel groups operate on a regional basis, he said.

In exchange for an angel group's financial support, a business owner must offer something in return, usually a 40 to 60 percent interest in the company and a voting seat on the board of directors, Manning said. Most ventures take at least three to five years to capitalize and most require funding from other sources, not just angel groups, he said.

Richard G. Horan, senior managing director of the Slater Technology Fund, explained that his organization, an independently chartered nonprofit, provides funding at the conception stage. The Slater fund offers direct investments, venture support, capital formation and incubator facilities.

The fund aims to complete six to 10 investments annually, spending approximately \$3 million each year in funds appropriated by the General Assembly, Horan said. Since it began in 1997, the Slater fund has invested \$20 million, subsequently leveraged into more than \$200 million in follow-up investments, Horan said.

Horan called current economic conditions for business and investors "the worst it has been in my lifetime." But Horan said he believes "the next five to seven years will be the most attractive to be in this business."

Christine M.B. Smith, innovation program manager for the R.I. Science & Technology Advisory Council (STAC), explained that her organization is a public body and advisory council, established in 2005. "We pump out to the community approximately \$2 million a year in state funding," Smith said.

The council has two "signature programs," she said. The R.I. Research Alliance provides approximately \$1.5 million each year in collaborative grants to parties working together on projects with "long-term economic impact" for the state. Since its inception, the Alliance has received approximately 150 proposals and funded 24 so far, with funds going to private and public entities with strong research focuses in areas such as bioengineering, nanotechnology, neurology, computer imaging and the environment.

The council's second signature program is the Innovation Tax Credit, a "tool" to stimulate capital investment unlike any other tax credit, Smith said. An investor receives a 50 percent tax credit for capital investments into a company with \$1 million or less in revenue, capped at \$100,000. The credit may be assigned to other investors. If approved, an enterprise has six months to raise the additional capital needed to receive the tax credit.

David Speser, chairman of the board and co-founder in 1980 of Foresight Science & Technology, in Providence, spoke about two funding vehicles administered by the U.S. Small Business Administration (SBA): the Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR)

programs.

Eleven federal agencies are part of SBIR and five are part of STTR, and are required to reserve a portion of their research and development funds for small business. The programs, created by Congress in 1982, have access to \$2.2 billion a year in research funding, according to Speser.

He made it clear that Massachusetts enterprises do a far better job at snaring these federal funds than Rhode Island firms. In 2008, a total of 20 SBIR awards worth \$7 million were made in Rhode Island, versus 786 awards of \$282 million in Massachusetts during the same period, he said.

Speser said his firm, a technology transfer company, has just one client in Rhode Island: Brown University. Other clients are in Massachusetts, Connecticut, Indiana and other states, he said, and include 60 universities nationwide. •