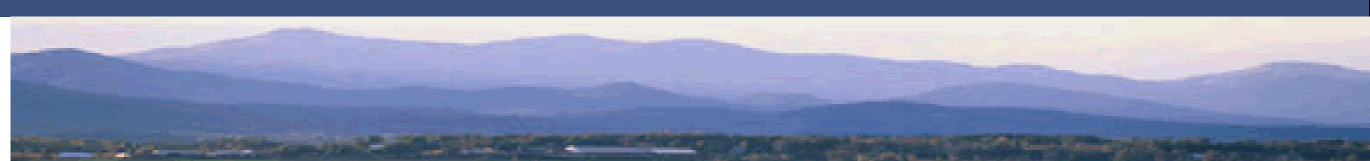
Building Exceptional Vermont Businesses

Cairn Cross testimony regarding H646
At the request of VEGI Board/Committee

Background

- Co-Founder and managing partner of FreshTracks Capital
- $36MM across three funds (2000, 2007, 2013)
- 37 companies invested in (preponderance in Vermont)
- Mostly seed and early stage investments.
- Few have ever used VEGI

- Teach finance at UVM Business School and Champlain College



Deal Dynamics (one of the 9 criteria we used to evaluate possible investments)

- What is the makeup of the “capital stack” of the company?
- Who are the participants in the capital stack (banks, finance companies, investors, founders, employees, others)?
- How aligned are the interests in the capital stack?
- What does each party bring to the table in the capital stack?
- Who are the leaders in the capital stack and who are the followers
- Who governs and controls the board and/or the stockholders

- If VEGI was to be a “equity or near equity participant” and therefore be a participant in the capital stack what would it bring to the table besides money and how would its interests align with the other members of the capital stack. How would its interests differ? Who within the organization is savvy about capital stack dynamics?

General thoughts on proposed law H646

- As proposed there is a “double dip”
- All the normal terms and conditions of the incentives apply, but…
- In the event of a sale within 3 years VEGI would get a second “dip” right from the capital stack.
- If VEGI got winfall payment as contemplated under H 646, would the company then be relieved of its job related obligations under VEGI?
- Other difficulties include how to value a private company at the time the awards are made to establish a baseline? Not a simple or low cost proposition to value a private company.
- Why would VEGI get all of its principle back, plus a multiple based on valuation increase? This is equity like payment for debt like risk. Misalignment of risk/reward.
- Is VEGI trying to enable job creation or invest in companies? Should it be trying to accomplish both

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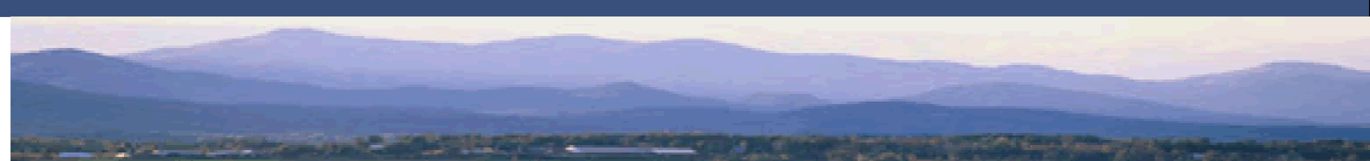

Some thoughts on future company formation/operation

- We are in a “post jobs” economy.
- Manufacturing has become fairly automated and will be further automated.
- Service jobs will become robotized (order taking at restaurants for instance, driverless vehicles –trucks for instance will replace vehicles with drivers, agriculture will become more automated – indoor growing for instance).
- Off the shelf software tools rented on a monthly basis take the place of coders and software engineers and designers.

- Companies are becoming more virtual with founders split among states and continents and local support teams surrounding each founder. 25% of our portfolio companies fall into this category. Theoretically that makes it easy to venue shop.

- Are the long term implications of these trends good or bad for Vermont?

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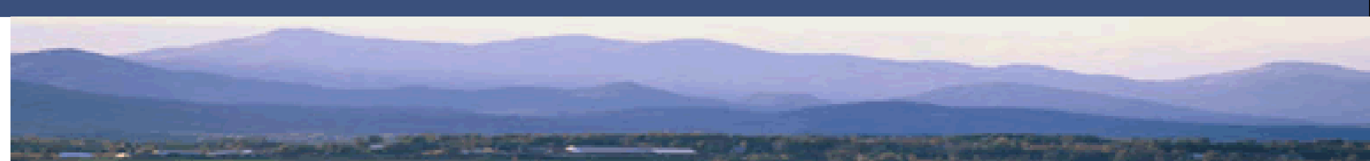

Should the state make equity investments?

- Usually other states investment in equity via their pension funds.
- Pension selects fund managers to operate investment funds within or outside of state borders.
- Selected fund managers have fiduciary discretion to invest the a portion of the Pension funds in private companies.
- Vermont state Pension fund did a bit of this in the 1980s and 1990s.
- Challenges and opportunities to this approach. Not simple to pick managers. Not simple for managers to accomplish the task of investing in a defined geography.