

Cairn G Cross Of Freshtracks Capital

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Vermont is an entrepreneur-rich environment. Our state may be small and far from the urban capital markets, but our imaginative business people have created whole new industries up here - think of super-fatted ice cream, jog bras and snowboarding. They have developed new ways of selling recognizable products - think of computers and teddy bears. They have helped push along the "green" economy - think of household products, solar energy and wind technology.

But Cairn (pronounced "Karn") G Cross, cofounder and managing director of FreshTracks Capital, LP produces the one thing a business economy simply cannot do without: the entrepreneurs themselves.

FreshTracks is Vermont's only venture capital fund. Venture capitalists are the good guys who swoop in with suitcases of money and say, "Here, start a business." They're also the bad guys who get blamed for cashing out of the same businesses because they're uninterested in job creation and livelihood.

But if you must have venture capital - and most new businesses depend on it - it helps to have someone like Cross on your team. Competitive skier, banker, auditor, businessman and entrepreneur, with a little adventurer on the side, Cross, 49, brings a unique set of skills to the creation of business - and jobs - in Vermont.

Venture capital is as much art and intuition as it is about science and accounting, and Cross seems to delight in adventurous business deals. The word he uses most to describe his career is "fun."

"In banking I always gravitated to the oddball deals, the creative deals," Cross said. "Look at what's happened in the banking world when it comes to lending. You feed the data into a computer system and it spits out a credit score. Then they go 'Yes' or 'No.' You can train a chimpanzee to do that. I don't want to do that."

Cross is a tall, bony, energetic and boyish man who looks like an agreeable hawk. He's voluble - very voluble - smart, accessible and charming, with a dry, acerbic wit and a good sense of timing. He lives in Ferrisburgh with his second wife, and has two children from his first marriage.

The words most often used to describe Cross are "creative," "analytical," "personable" and "good person."

Charles F Kireker, Cross's partner and the cofounder of FreshTracks, said there were five good reasons for picking Cross to be his partner.

"Good personal chemistry is the first," Kireker said. "Then complimentary skill sets. Absolute trust and confidence in the judgment of the other. Then high integrity and candor. These are the four key building blocks that are important for a good partnership. And in Cairn's case, the fifth was that I had developed a real understanding of what he could bring to companies and investing with his knowledge of Vermont businesses. He's insightful. He knows Vermont. He's broad in his range of knowledge and relationships. He's the best partner a man could ask for."

Cross is "a nice guy trying to good work in Vermont," said Faith I Brown, acting president and CEO of the Vermont Community Foundation, a public charity that helps Vermont-focused individuals, organizations, and businesses with their philanthropy.

"Cairn is a true Vermonter," Brown said. "He's a sweetheart. He's easy to talk to, very personable, and very committed to his work and to building a stronger Vermont. He has very smart partners. And he's always willing to help - always. We think FreshTracks is doing some important economic development work. They're committed to their own investments, but also interested in improving the economic and entrepreneurial environment in Vermont."

One of FreshTracks's founding partners is Village Ventures, a venture fund that has also created a network of small venture funds (under \$100 million) in rural places like Boise, ID, and Charlottesville, NC. Its managing partner, Matt Harris, calls Cross "incredibly rational."

"He is highly logical and entirely reliable," Harris said. "So you can take what he says to the bank, and that's the most important thing."

Cross has deep roots in southern Vermont, but he is careful not to brag about being a fourth-generation Vermonter. That's because he was born across the border, in North Adams, MA. However, he does claim, tongue-in-cheek, to have been conceived in Rutland.

"I can't verify it, but I believe it to be the case," he said with a grin. "My father gets embarrassed when I talk about that."

His father, George Cross, is well-known in Vermont as a teacher and school administrator who retired as Winooski's superintendent of schools and then spent 10 years representing his district in the state Legislature.

"Now he goes to farmers markets with his cutting boards and bird houses, mainly because I think he wants to get out of the house and talk to people," Cross said.

Because of his old-time Vermonter roots, Cross is, in a way, an old-school business lender; he started in banking at a time when character was the main criteria for commercial bank loans.

"In 1998 and 1999, it was the last of the so-called character lending," he said. "It was where a lender basically said, 'I know you, I know your mom and dad, in fact I even knew your grandfather. You come from good stock, so I'll make the loan.' I'm overstating, but that's basically how they did it. And yes, they wanted collateral. But the intent to pay was primary. When I became involved, it was right at the cusp, where it was shifting to guys and gals with calculators."

After he left banking, Cross spent some time as a consultant and part-time venture investor before joining with Kireker to open FreshTracks with an \$11 million investment fund. They did it at the very worst time - on August 31, 2001, just before 9/11, and just after the dot-com bubble burst on the tech-heavy NASDAQ. But even with a two-year slump in the financial markets, the company survived. In fact, it is doing so well that last year FreshTracks added two partners and raised enough money to start a second, \$14 million fund.

Altogether, FreshTracks has injected - or will be injecting - about \$25 million into young companies; a majority of them are in Vermont, and almost all are in New York and New England. Among its accomplishments so far have been taking Vermont Teddy Bear private, resurrecting the healthy food magazine Eating Well, and helping to develop Isis, the women's outdoor clothing company in Burlington,

The world of venture capital is complicated, risky and mysterious. Like Olympic swimming, car repair and most other human enterprises, it comes with its own language, jargon and skill sets. Successful venture capitalists have to do four things well: They have to be able to raise money; they have to be able to analyze business plans and spot promising entrepreneurs and their companies; they have to help the young companies develop and grow; and if and when they are successful, they have to know how to liquefy the companies and pay off their investors.

According to the National Venture Capitals Assoc., there were about 798 venture capital firms in the US in 2006, managing approximately \$236 billion. The average venture fund size was \$175.6 million. FreshTracks, with its \$25 million, might be the smallest in the country.

New companies often start out with little more than an innovative idea and a business plan - no collateral, no cash flow, no track record, no brand recognition, little management experience and few if any customers.

So after their credit cards have given them a jump start, and friends and family have kicked in their share, what are entrepreneurs to do? Banks, which are investing their depositors' money, can't take the risk of loaning money to these collateral-free companies. "Angel" investors usually help startups with amounts under \$500,000. "Mezzanine" loans can help fill the gap between large venture money and angels - they take a higher risk for a higher percentage of interest and a small amount of equity, and are paid back like banks. The longest view, however, is taken by venture funds; they take a percentage of the company and act as hands-on managers, taking seats on boards and helping the young companies to grow. Large venture capital funds are usually located in cities; as a rule, they are interested in investments of \$5 million or more.

When Cross and Kireker started FreshTracks, they saw a "capital gap" in Vermont - the need for early-stage money for young-growth companies looking to raise between \$500,000 and \$1.5 million. They decided they could make money filling that gap.

But to invest in entrepreneurs, Cross and Kireker first had to become entrepreneurs themselves - they had to raise investment funds. So they developed up a prospectus and knocked on doors. After pitching their idea and their qualifications to about 300 private investors and institutions, they finally raised about \$11 million from 53 investors, including Middlebury College and the Vermont Investors Forum.

Then they went looking for business plans.

"Our target company is a company that has about a million dollars in sales and is growing very rapidly," Cross said. "Next year it will have \$5 million in sales, and the next year \$10 million. It probably hasn't made any money yet, but it's starting to. And it's missing parts of its management team because it's a young company. That would be ideal. Now, in our portfolio they don't all fit that perfect profile. But in general, when we started, we felt there were enough companies emerging that would fit that profile."

They started out with four criteria: a great idea, of course; a strong management team; opportunity in the market; a strong business model.

FreshTrack's minimum investment is \$500,000, although it just closed an equity deal with Draker Laboratories in Burlington -which makes "green" energy monitoring technology - for less. But it hopes to increase that investment over time.

Outdoor Enthusiast Cross's family originally came from Scotland, where the family name was Cairncross.

"Cairn was then used as a middle name for a long time," Cross said. "Then they stuck me with it. It wasn't fun when I was a kid because you get teased if you're name is different. But now people remember it." His paternal grandmother was the oldest of 15 children growing up on a farm in Grafton.

"Her father, when he was fairly young, and his father, emigrated from Canada to Grafton in the late 1800s," Cross said. "They were there for a while, owned property, sold the property, and left. Then they came back and settled again. Nobody's ever figured out what the story was. Nobody remembers why they came and why they left. But the Grafton Historical Society published a big town history named "Five Dollars and a Jug of Rum" - you could bid to name the town, and the winning bid was five dollars and a jug of rum. In that book, there's a picture of my great-grandfather near his wood shop. He made a variety of things. And it's funny, because that's what my dad does now. Maybe that's what I'll do in 20 years."

Cross's father was born and raised in West Brattleboro. His mother grew up in Vernon.

"Her father ran the Vernon hydro station, and some of my earliest memories of Vermont are standing on the porch of my grandfather's house and looking at the farm across the street - which is now Vermont Yankee," Cross said.

When his father got a teaching job, the family moved to North Adams.

"I grew up in Berkshire County, which I call 'the lost county of Vermont,'" Cross said. "But I spent a lot of time crossing the mountains for holidays at my grandparents."

Cross's mother passed away when he was 10, and his father remarried. He has two younger adopted sisters.

Cross was a competitive Alpine and cross-country skier and a ski jumper in high school.

"I thought I was an Alpinist, but in those days, in Vermont and Massachusetts schools, you had to do all the events," Cross said. "The first time I was on cross-country skis, the team didn't have enough money for skis for everyone. We had to share. The skis were plopped down in front of me at the starting line. I stepped into them, pushed off, but had no idea what free heels were like. So I fell flat on my face. It's funny - in hindsight."

In high school, Cross washed dishes in high-end restaurants to pay for his ski equipment.

"I bused tables," he said. "I waited on tables. I did kitchen prep. These are wonderful skills to acquire, particularly when you're a boy. In my final food service job, I was a short order cook for the country club. That was when I was out of high school and ready to go into college. I was whipping up sandwiches and salads and soups. I always felt it prepared me for later in life - but don't ask my wife. She'll say I can't do anything in the kitchen."

He enjoys getting his yearly Social Security printout because it shows that his annual income in the 1970s was \$421 a year.

"My grandparents, who went through the Depression, were happy I was paying into the system," Cross said. "They approved."

When it came time for college, Cross chose Montana State University.

"It was about as far away as I could imagine going," he said. "I don't know if I realized there were states beyond that. But they had a ski team, and off I went to Montana."

He ended up getting a degree in agriculture. "Why?" he asked. "Poor planning. I had this idea that I wanted to work outdoors. I loved being outdoors, I skied. I hiked and camped. So maybe forestry or soil science. Montana State didn't have any of those programs. But the School of Agriculture had a lot of plant science and soil science, so I started taking classes. Eventually I ended up with enough credits to graduate with a degree in agricultural production. We have these huge flower gardens at my house, and we grow some vegetables, so I feel I know a little bit about it."

There wasn't a lot of interest in organic farming, eating locally or sustainable agriculture back then, but Cross did

produce a thesis on solar greenhouses. He also made a connection with the US Ski Association, which was located in Brattleboro at the time. It had put together the Bill Koch Ski League and was sending out proselytizers to teach skiing and create new leagues. One of them arrived in Bozeman.

"He had a van full of ski equipment and he was traveling across the country," Cross said. "I was sharing a house with the ski team, and we hosted him. I was a junior at the time. Then, when I graduated, I got a call from them asking if I wanted to be a mobile ski coach. We would show up in a town, unload the ski equipment, put on clinics all day long and do radio interviews - only radio. The TV crews never showed up."

Skiing

For the next few years, Cross's life consisted of skiing and working in ski resorts. For the winter of 1981-82, he ran the Prospect Mountain Ski Area in Woodford.

"It was a monster of a winter," Cross said. "It started snowing up there on Thanksgiving and we had snow on the ground way past Easter."

Then he ran a ski area outside of Boston. "The idea was to bring snowmaking to cross-country skiing," he said "We used the Lake Placid Olympics model. But like the winter before had been the snowiest season, this was one of the warmest winters ever. It stayed 70 degrees. The snow melted. Trucks got stuck in the mud."

In the summer of 1983, he went to Australia to teach skiing.

"I went 18 months without a summer," he said. "I taught Alpine and cross-country at the largest ski area in Australia. I was 23 years old. It was a dream job - but not from a financial point of view."

After returning to New Hampshire to run another ski area, he got a call from the ski association asking if he wanted a full-time administrative job. He had recently gotten married, and his wife liked the idea of living in Brattleboro.

"It was fall of 1984, and it was like coming home again," Cross said.

"But I realized that while this is fun and it pays the bills, I'm a little more ambitious. There needs to be a future for this. What intrigued me was the business aspects of skiing - sales and marketing, or the behind-the-scenes financial aspects. I realized I could, in the evenings, go over to Keene, where New Hampshire College, now Southern New Hampshire University is. And I could get an MBA in the evening."

That's exactly what he did. And when a fellow student told him about an opening for an auditor at Vermont National Bank, he applied and got the job.

"I thought, 'Great, this is going to get me into the business world'," Cross said. "My reasoning was that there are banks all over the place. I had a classmate in high school whose dad worked in a bank, and he didn't do anything. He just sat behind a desk and pushed some papers around. How hard can that be?"

Banking For Dollars - This started Cross's career in the banking world.

"I quickly figured out that auditing wasn't the place to be, as every afternoon I had to wake myself up after my head had fallen down on my desk after falling asleep after lunch. But the lending area, particularly the commercial area - making loans to businesses - looked like fun. I went through formal credit training, which for me was the perfect preparation for that I've done with the rest of my life. It was the process of being taught how to think about business and read financial statements. I thought I was the brightest guy in the bank, really hot stuff, because I had an MBA. But a week into the formal credit training, I realized I didn't know much at all."

In 1989, Vermont National moved him to Woodstock. It was a troubled time and New Hampshire banks were closing. "Literally all of them were failing, and the Vermont banks were starting to fail," Cross said. "In Vermont, they were mostly doing consolidation in lieu of bankruptcy, but the whole thing put a tremendous pressure on the banking system. And I'm in Woodstock, a wonderful place to be, but it's not exactly a hotbed of business lending. It was like going back to the audit department. Today there's a lot more going on, but then it was not a robust business community."

Restless, he was happy when a headhunter recruited him for the Howard Bank in Burlington, now part of TD Banknorth.

"Howard had always been a very conservative bank from a lending point of view," Cross said. "It had this beautiful clean balance sheet. It was in great shape. They were saying, 'We'll hire up-and-coming lenders and set out to go after market share.' That sounded like a lot of fun. So I came up to Burlington. There's an old saying about Burlington: 'It's a great place to be because it's so close to Vermont.' It's true. I went from sleepy small towns like Brattleboro and Woodstock and found myself in Burlington, where there was a lot going on."

During his early days as a commercial lender, Cross had developed a philosophy which leaned towards personality and the character-driven model. But now "the five Cs" were taking over.

"It was character, collateral, capacity to be paid, conditions of the loan and cash flow," Cross said. "But forget about collateral and character. Cash flow is what counts. It was always about existing businesses. I could do the analytics. I have a good grounding in finance and accounting. I can work the numbers and understand structuring loans and conditions. But it seemed to me that there was this missing human component - and it wasn't missing, it was being killed off. My philosophy was, 'How can I figure out a way to get these creative deals done?' And Howard Bank allowed me a lot of latitude."

One of the areas that Cross made his own was lending to the new captive insurance industry.

"No one really understood what the heck are these things," Cross said. "I didn't know much about it, but I thought this could be fun. I went out and started talking to capital managers and lawyers and accountants who were working in this area, and I learned that there were all kinds of captives. Some were riskier than others. I realized there was a great, huge opportunity, and I could actually do some really creative deals and make a lot of money. I went around and assembled a group of people within the bank."

Cross spent two years working with the captive insurance industry; today it remains a large profit center for the bank.

"That's an example of the way I work," Cross said. "Tell me you can't do something and I'll figure out a way to do it. Because that way, it's a lot more fun."

And what does the word "fun" actually mean to Cross?

"A lot of it is about the people," he said. "Even today, when we think about getting involved with a company, we ask, 'Are these people we want to be associated with? Can we get along?' At Howard I ended up with some customers who everyone else thought were difficult, but who I thought were interesting people. I did a lot of banking with first-generation immigrants who settled in Vermont, for example, because the character of those cultures were so strong they would go without eating in order to pay the bank."

Another component he enjoyed was putting together deals.

"I would think, 'Is there something we're missing?'" Cross said. "Is there a way to think about how we could do a deal? Can we structure the loan with an Small Business Administration guarantee? A Farmer's Home guarantee? Can we get VEDA to come in? And on and on. How can you take something and figure out a way to do it?"

Since risk is a big part of making loans, Cross enjoyed figuring out how to mitigate and price that risk.

"Banking has gotten devolved into a commodity business where they're not really pricing for risk," Cross said. "If loan A is riskier than loan B - say the CEO has less experience and is more likely to fail, and the collateral is thinner and the cash flow is smaller - then loan A should be priced higher. We should be charging more interest or creating a tighter control. Because you're taking more risks, you want more reward. But banking has devolved into a world where every thing's a prime credit, and that's just not true."

One of his clients at Howard was Green Mountain Capital, a Small Business Investment Company (SBIC) in Waterbury that is, today, winding down after funding 28 businesses over a period of 15 years.

"Someone at the top of Howard, way up in the senior management, had made the decision to become a limited partner and put maybe half a million into Green Mountain Capital," Cross said. "They weren't going to manage the day-to-day relationships. So they looked around and said, 'Who's the guy who's going to be the officer of this account?' And I ended up talking to (president and general manager) Michael Sweatman and the GMC partners. Before that, I had never heard of mezzanine lending and a Small Business Investment Company."

The US Small Business Administration created the SBICs "to improve and stimulate the national economy and small businesses by stimulating and supplementing the flow of private equity capital and long term loan funds for the sound financing, growth, expansion and modernization of small business operations while insuring the maximum participation of private financing sources," according to its Web site.

The SBICs made loans in \$1 million increments. Green Mountain Capital wanted a line of bank credit.

"They were saying, 'I'm making \$200,000 loans, and I want to make a few of them. So, Howard Bank, why don't you advance me the money?'" Cross said. "It was interesting risk. We're lending money to someone who's lending it at higher risk. That's a little strange. How do we do that? So I figured out a way. I ended up being good friends with Green Mountain."

According to Sweatman, Cross was one of the few bankers in Vermont who understood venture capital.

"In the early days, we would go to the different banks and meet with the bankers and loan officers," Sweatman said. "We would try to market ourselves and what we could do. We were one level of higher risk than the banks were. We could help fund companies that the banks were turning away as too risky. Very few bankers understood our space. Cairn was one of the few people in the banks who understood and followed up. He was entrepreneurial and showed the flair that changed him from being a banker to someone who would entertain a more adventurous risk lending with more entrepreneurial clients."

By 1996, Howard Bank had sent Cross, who was already a vice-president, to the Stonier Graduate School of Banking at the University of Delaware - three summers of coursework and a thesis - to prepare him for a job in senior management. But Cross was getting restless.

"I'm really glad Howard sent me, but it really convinced me that the world of banking was changing dramatically and I really didn't want to be a part of it," Cross said. "It was my call to action to find something I really wanted to do. It probably wasn't a great investment on the bank's part, because they didn't get a senior executive out of it."

On His Own

Green Mountain Capital was in need of a half-time assistant manager, and Cross felt he could find consulting work on the side. So he left Howard Bank, and went out on his own.

"I felt pretty comfortable that I could make the leap from the bank and still put food on the table," he said. "I looked at this leap as an entrepreneurial leap. I was going to work half-time for an entrepreneurial organization that was making high-risk loans, and the rest of the time I was going to live by my wits and find clients that were willing to pay me for my knowledge. In my mind, it was a leap forward. Financially, it was about a par leap. But it set me up to do what I wanted, and it was just an incredible amount of fun."

Cross put the word out to his former customers, offering to do financial projections, provide business advice and help reconstruct difficult financial relationships.

"I said, 'I'm available for hire,'" he said. "And my former boss at Howard had just gone to Merchants Bank and said he'd hire me as a consultant to help re-underwrite some of the big loans in their portfolio."

As a consultant, Cross helped Green Mountain Coffee put a budget together, helped with some real estate deals, and - big mistake here - advised the Bove brothers against bringing their now-popular pasta sauces to market.

"I actually advised them against it," Cross said. "I'm glad they didn't listen."

All this time, Cross was looking for the right next move. He found it with Charlie Kireker. Kireker was a founding partner at Green Mountain who also did angel investing. The pair respected each other's integrity, enjoyed working together and had complimentary skills. Cross understood the banking world, while Kireker had a public policy and political background.

"He and I talked about the need for an early stage equity capital fund," Cross said. "There were banks out there providing capital for certain types of companies, and some angel investing that provided real seed capital. Green Mountain did mezzanine investing. But there wasn't really a source for early-stage growth company money."

Cross's banking background made him "a secret weapon" in the venture world, Kireker said.

"Someone who's a banker is not a good venture capitalist, but Cairn is an exception to that rule," Kireker said. "Cairn added immense value - he's not only able to introduce our companies to various banks, but he's able to help our companies pitch the opportunity in the language and structure the bank is most likely to support. He becomes a middleman who knows what both sides need. In a venture world, whenever a company can qualify for bank financing, it stretches our capital further."

It helped that Cross and Kireker had complimentary networks.

"I knew a lot of the bankers in the state, and he knew a lot of the political people," Cross said. "We knew when we were going to raise money, we had different folks we could talk to. We felt like the two of us together were greater than each of us individuals."

In 1999, the pair did a marketing survey, looked at the results and decided to go ahead. They joined forces with then-brand new Village Ventures in Williamstown, MA.

"Village Ventures agreed to work with us and co-invest," Cross said.

"If we put a dollar in, they would put 50 cents. We felt that would help us raise money."

Village Ventures' Matt Harris said that from the beginning, he wanted to work with FreshTracks.

"First and foremost, it was the team," Harris said. "Cairn and Charlie are incredibly well-networked in their state. They see all the opportunities to invest in Vermont. They're also very intelligent and easy to get along with, which matters a lot."

The partners, both skiers, had snow in mind when they named their new company. (It's no surprise that they later invented the "Peak Pitch,"

and annual event where budding entrepreneurs pitch their ideas to investors during a ski lift ride.)

"We had in mind a brand image that could be associated with

Vermont," Cross said. "It could be any snow sport really, but I have also had hunters mention to us that the word FreshTracks evokes hunting memories. Tangentially, we also thought about 'fresh' capital into a company and making 'fresh tracks' in financing a young company and so forth."

Raising Money

Once they had a company, Cross and Kireker put together a prospectus. Then they spent a year looking for investors. It wasn't easy.

"We went to all the usual institutions - the Vermont Community Foundation, National Life, high-worth individuals," Cross said. "I joke that we talked to every possible person we could have in Vermont. That's an exaggeration. A lot of times it took multiple presentations. We'd make the pitch and they'd say, 'Very interesting, I'll think about it.' Then they'd come back and say, 'I want you to talk to my wife, or my business associate.' Rarely did we talk to someone who said, 'We're all set. Send me the subscription agreement and we'll write you a check.' We ended up with an \$11 million fund with 53 limited partners. And I think we made pitches to about 300 investors to get the 53 limited partners."

One of their first investors was the endowment fund of Middlebury College.

"Middlebury committed fairly early but raised the bar," Cross said. "They said, 'We'll invest \$2.5 million, but you've got to raise another \$5 million before the commitment is valid. They were nice about it, but still..."

According to Rick Fritz, a retired businessman who is the chairman of the board of Middlebury College, there were several advantages to investing in FreshTracks.

"We thought there would be good returns in that FreshTracks represented the only sizable venture capital provider in the state," Fritz said. "And secondarily, we were also interested in byproducts from the funds like internships, which have been honored, all the way through perhaps to spousal employment for faculty and staff at the college in the underlying investee companies. I suspect, either directly or indirectly, that's happened."

FreshTracks had its final "closing" - meaning that the fund was officially open for business - on August 31, 2001. Then came the NASDAQ dive and 9/11.

"We put out a press release, opened for business, and as you can imagine, nobody cared," Cross said. "The first year and a half was really slow. Wall Street didn't know what was going to happen, the private equity world didn't know either, and the venture world was very skittish. All over the country it was a real economic slowdown. People talk about today as being a problem, but it was a bigger problem then. Today there are some structural financial issues and underlying commodity issues, but from 2001 to 2003, in terms of ceasing economic activity? People stopped submitting business plans. That's not what's happening today. Today companies are growing and we're seeing business plans on a daily or weekly basis."

There was one project that FreshTracks could - and did - take on. Eating Well, a Vermont healthy eating magazine which had died in 1999, was being resurrected by its founder in 2000.

"It didn't really fit our profile because it wasn't a startup," Cross said. "But there was nothing else going on, so we invested cautiously."

Today FreshTracks has about \$1.5 million invested in Eating Well Media Group and owns roughly 12 percent of the

company. It has also attracted co-investors who have put in about \$9 million.

"We're pretty good at being able to syndicate or bring in this outside capital as long as we're willing to do a lot of heavy lifting," Cross said.

In 2005, Cross became chairman of the board of Eating Well and helped recruit Tom Witschi to run the company. It has now morphed from a magazine into a healthy-eating content company earning about \$9 million in sales a year.

"We made a decision to stay vertically focused in our space in the intersection of food and health and operate across multiple platforms," Witschi said. "The strategy was about diversification. We understand that in a niche area like healthy eating, we have to operate across multiple media. We're now selling content to a very deep licensing roster of over 40 different companies in media, health care and retail space."

Cross had no background in media companies when he became chairman of the board.

"But he is an incredibly smart guy and he's a very quick study," Witschi said. "It's been a wonderful working relationship. He knows how to manage people, when to push, when to pull back support. He's seasoned and has managed many different kinds of business. He moved into the media business without much of a hiccup and gave us the latitude to do what we needed to do. I think there's very few people who could do all those things in the way that he does it."

Eventually, FreshTracks was able to find 14 investments for its first fund.

Scorecard

Venture capitalists get their money if and when they convert their equity into cash. This is the controversial part. Generally, FreshTracks' funds have a 10-year time limit with two one-year extensions.

"We want to have cashed out before then and have it all wrapped up," Cross said. "That means we would have exited our position or distributed the shares to our partners. But they don't want shares, they want money. So we'll try to sell the company to a strategic buyer, or to the employees, or, theoretically, we can take it public. But most of our companies are too small to go public."

After the company is sold and the profits are distributed, the general partners get 20 percent and the limited partners get 80 percent.

"So, as the fund manager, we are working for the eventuality of profits," Cross said. "The profits all come at the end, and you put in a lot of time before then."

If an entrepreneur wants to create a company and make a life's career out of running it, FreshTracks is not the place to go. "We spend a lot of time talking with our entrepreneurs about what they want to do," Cross said. "One way we'd really disqualify people is if they say, 'I'm 35 now, and when I'm 50 I still want to be running this company.' We'd say, respectfully, 'You don't want our capital. Our interests are not aligned. We'd like to be out in five or 10 years.'" Our entrepreneurs all have the same mind we do - get these companies, grow them to a point, sell them or figure out a way to make them liquid, and take the cash."

What happens to the companies? "We have hope that these companies will continue to do well," Cross said. "One company we sold was in West Lebanon (NH), in 2005. The buyer left it there, and they continued to grow it. The sale of a company doesn't have to be a big problem. Lots of companies get sold, but all that means is they have fresh capital and new owners with new ideas. Sometimes they keep growing."

Of the 14 companies in the first fund, FreshTracks has only sold that one. "It was sold profitably and we made 3 1/2 times the money, or something like that," Cross said. "Three of the companies we have totally written off. We have no hope of getting back a dime. Three are in some form of liquidation. The remaining companies are still in business and are heading in the right direction."

In 2006, FreshTracks brought in two new partners and began raising money for a second fund. They closed the fund in May of 2008 with \$14 million from 39 limited partners. Many of the investors in the first fund returned for the second round, including Middlebury and the Vermont Community Foundation. New investors like Vermont Public Radio and Merchants Bank also joined.

By then, the business climate had changed. "If you look at the companies in our second portfolio, some of them are stronger today than some of our first fund companies are now," Cross said. "Native Energy, for example, sells carbon offsets for businesses and consumers. They're going to grow about 150 percent this year, and they tripled their business last year over the year before. They will do in revenue business this year almost what Eating Well is doing after six years."

Vermont's Entrepreneurial Future - It is still too early to know whether FreshTracks is truly successful.

"First, we have to demonstrate that we can raise money," Cross said. "OK, we did that. Big deal. That's part of it, but the second thing is to demonstrate that we can find good companies to invest in. I'd grade us B-plus on that. Then you've got to figure out a way to exit and be profitable and raise the next fund and be successful. It's a long-term vision."

Cross, who is also on the Board of Public Accountancy and is co-chairman of the Vermont Investors Forum, is "bullish" about entrepreneurial Vermont.

"There's tremendous variety here," he said. "I get to work with really fun people, and with companies that are doing really exciting things."

One company Cross finds fascinating is Middlebury Planet. "A Middlebury professor and a couple of students came up with the idea of taking an affinity credit card and using it to buy carbon footprints," Cross said. "They wrote it up as a class project and turned into a company. They got Bank of America as a partner - the bank loves this. Middlebury Planet has 10 or 11 people working for it full-time. Will it be a financial success? We don't know right now. But being involved in it is exciting."

During the summer, Cross visited an emerging media lab at Champlain College and found more than a few exciting ideas.

"It's the middle of the summer, and they've got 40 students employed by companies or foundations creating serious computer games," he said. "For instance, one was a game used by first responders in Boston for simulations of disasters. Two of those 40 kids have actually created companies on the side. I'm positive there will be a gaming cluster in Vermont in the next five or six years. We'll see a dozen of these kids. It could be the next Ben & Jerry's, or Burton snowboards."

Vermont is good at looking at things in new ways, Cross said. And it can be very good for business.

"Politicians have a vested interest in saying Vermont is bad for business," Cross said. "Then they can say they have a solution or that it's bad and it's the other guy's fault. The best thing in Vermont is that as an entrepreneur, you can get a tremendous amount of help. You can network among people in a small state. You can get a lot of advice and help and mentoring. I think banks, venture and angel are more accessible here."

Vermont is missing a pool of senior management talent, Cross said, but it has many underemployed people who can fill out a company's middle ranks.

Entrepreneurial companies are a good fit for the state, he said. "Our companies aren't big consumers of buildings and land," Cross said. "We don't have those permitting issues that you hear about. These companies are renting space for three or five years. In terms of taxation, if you're going to move a business to Vermont, taxation can be an issue. But if you're starting a new company, the company is not going to be making money for a long time. Income tax isn't an issue, and you're building up tax losses which are going to offset the profits eventually. And worker's comp? Our companies are going to have the lowest rates anyway, because they're not doing heavy-duty manufacturing. So this is just as good a place as anywhere."

Ultimately, an entrepreneur is mobile. "So they're here because they have an attraction to here," Cross said. "It may be skiing, or hunting, or hiking, or snowmobiling. It may be Boise, Idaho, or Boulder, Colorado, or Bozeman, Montana. But it's probably not Boston. The young entrepreneurs are here because they want to be here. That's part of why they're entrepreneurs. They want to create something. I'm bullish. We wouldn't have raised the second fund if we weren't bullish."

Although Cross currently is dealing with some health issues, retirement for him is far in the future. He can't leave his job, he said, because he's having too much fun.

"I've got a long way to go," Cross said. "I like what I'm doing. I'd like to create the next generation of FreshTracks, and I have some intention of remaining a partner emeritus and keeping my hand in. When I'm 70, I might not have the strength and capacity and energy to be involved the way I am now, but I don't ever see myself getting into a motor home and going to Arizona."

Joyce Marcel is a freelance writer and author from Dummerston. Her new book, a collection of her columns called, "A Thousand Words or Less," is now available. Learn more about her and how to order the book at her Web site: www.joycemarcel.com.

