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Seed Capital: From Patent to Product

A business owner explains how he found more than capital when he received seed money.

From: [Inc. Magazine, January 1996](#) | **By:** Jill Andresky Fraser

Kenneth James faced a typical start-up problem. His Newark, Del., company, Supercritical Fluid Technologies, which makes instrumentation for the chemical industry, needed capital to produce demos and apply for patents.

So James appealed to the recently formed Delaware Innovation Fund, in Wilmington. The fund, originally conceived by the governor's office, combines monies from foundations, local corporations, and the state, and is one of a growing number of groups that provide entrepreneurs with early capital.

Preseed capital is best suited to "companies that are in the early stages of formation -- sometimes so early that their prospective owners have not left their current jobs," says Delaware Innovation Fund president David Freschman. "But they've got some type of proprietary idea or technology, maybe a patent on a product that they can't afford to produce."

Freschman says, "Most preseed companies don't have a revenue base or profitability. They may not have a business plan."

Financing arrangements vary by fund. Delaware Innovation, for example, provides funds to help with patent issues and to bring products to market. In return, it takes royalties of 3% to 10% of sales over 7 to 15 years.

It took 90 days for Supercritical to receive \$50,000 from the fund. But James, whose sales have hit \$500,000, got more than money. "The fund introduced me to local patent attorneys, accountants, and even business owners involved in an informal barter network," he says.

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