

**Oregon Growth Account Board
Minutes
March 1, 2005**

The meeting of the Oregon Growth Account Board was called to order at 10:33 am by Chair, Randall Edwards.

OGA Board Members Present: Richard Bader, John Castles, Katy Durant, Randall Edwards and Steve Vincent.

OGA Board Members Absent: Jim Johnson and Stan Timmermann

Staff Members Present: Norma Harvey, Wei Huang, Mike Mueller and Ron Schmitz

Legal Counsel: David Elott, Oregon Department of Justice

Consultants Present: Bill Armitage, CTC Consulting Inc.
J.B. Hayes, CTC Consulting Inc.

I. Approval of Minutes – 12/06/2004

MOTION: John Castles moved approval of the 12/06/2004 OGA Board minutes. The motion was seconded by Katy Durant and passed unanimously by the Board.

II. Tamarack Mezzanine Partners – Portfolio Update

Mike Mueller introduced Loree Misch and John Woolley of Tamarack Mezzanine Partners, an SBIC fund focused on mezzanine lending. As of December 31, 2004, Tamarack had called \$4.45 million, or 67% of its total private capital commitments of \$6.68 million. It had also drawn \$3.5 million, or 69%, of its \$5.1 million SBA commitment.

Ms. Misch and Mr. Woolley reviewed the history of the fund and outlined the current status. Discussion followed regarding Tamarack's investment model and goals. Ms. Misch and Mr. Woolley reviewed several investments in Oregon and answered questions from the Board.

III. Madrona Venture Fund III, L.P.

Mike Mueller introduced Tom Alberg and Matt McIlwain of the Madrona Venture Group. Madrona Venture Group is in the market to raise \$150 million for Madrona Venture Fund III, L.P. The firm is based in Seattle, Washington and will invest in early-stage technology companies primarily located in the Pacific Northwest.

Mr. Alberg and Mr. McIlwain outlined Madrona's investment thesis as follows:

- A strategy of geographic focus, hands-on involvement and substantial early ownership is our venture capital model.
- The Pacific Northwest, with anchor sources of innovation including Microsoft, Amazon, Intel, the McCaw Companies and leading universities is well positioned for future innovation.
- Madrona is a leading venture capital firm that has built a franchise the past 10 years successfully investing almost \$200 million in the Pacific Northwest.
 - 26 realizations for gains producing leading venture returns
 - A rich network of relationships
 - An established reputation for integrity and value-add
- The Madrona team possesses a comprehensive set of skills, experiences and results that are required to sustain superior venture performance over the long-term.

Madrona's disciplined investment strategy was reviewed and performance statistics were presented. The Oregon market was discussed and current investment portfolio case studies were outlined. Questions were answered from the Board.

Bill Armitage and Wei Huang presented staff recommendations.

Discussion followed regarding investments in Oregon and David Elott noted that a "best efforts" side letter would be included in contract negotiations.

MOTION: John Castles moved approval of a \$5 million commitment to Madrona Venture Fund III, L.P. Approval is subject to legal negotiation and conditions of the term sheet and side letter. The motion was seconded by Katy Durant and passed unanimously by the Board.

IV. OGA Quarterly Account Update

Cash Flow Analysis

Mike Mueller reviewed the OGA and Sub-Account cash flow charts indicating distributions, committed capital and available capital as of 2/15/2005. Mr. Mueller outlined a small change in the report, noting that Jim Johnson had requested previous quarter information included in the report to compare to current quarter information.

Portfolio Update (Comments Provided By CTC Consulting)

Endeavour Capital Fund III, L.P: As of September 30, 2004, Endeavour Capital Fund III had generated a net IRR of approximately 29.3%, which ranks the fund in the upper quartile (8.1%) of the *Venture Economics*

universe of buyout funds formed during 1999. The fund also ranks in the upper quartile of the *Venture Economics* universe of buyout funds formed during 1999 on a distribution to paid-in-capital multiple ("DPI" of 1.1x), well above the top quartile mark. CTC has no concerns, at this time.

Fluke Venture Partners II, L.P (FVP 2): Through the fourth quarter of 2004, Fluke Venture Partners II had called \$4 million or approximately 17% of its \$25 million in private capital. The firm has two additional tiers of SBIC capital available.

In 2004, the federal government determined to reevaluate the SBIC participation within the venture capital industry. As a result, the demand by venture capitalists to qualify under the existing program rose to high levels, putting pressure on the SBA in both completing the approval process for new SBICs and in allocating participating capital to existing and new SBICs. For this reason, the SBA recently cut back the amount of participating leverage available to SBICs from 2:1 to 1.7:1. FVP II was included in this adjustment, which means that the fund's total available investment capital is now approximately \$67.5 million rather than the \$75 million previously expected.

Riverlake Equity Partners, L.P.: As of December 31, 2004, Riverlake had called approximately 30% of the total committed capital of \$26.1 million. Riverlake anticipates calling as much as 25% of commitments during 2005 with as much as 18% during the first quarter to fund the recent acquisition of Hawkins and EZ Messenger Legal-Support Providers, LLC, (HELP) and the pending acquisition of SP Industries. The fund utilized its \$5 million credit line with LaSalle Bank to fund the acquisition of HELP.

SmartForest Ventures, L.P: As of December 31, 2004, SmartForest Ventures had called approximately \$15.6 million of private capital, or 62% of its private limited partners' committed capital of \$25 million. SBA capital drawn to date totaled \$21.2 million, or 43% of available leverage.

Regarding the proposed combination with PacRim Venture Partners, at its February 2005 meeting, SmartForest announced that, due to delays within the SBA, the formal combination of the two firms and their respective funds was being called off. Instead, PacRim and SmartForest will effectively combine operations via a co-investment agreement. A formal combination will occur with the raising of SmartForest Ventures II, which may launch in 2006.

Timberline Venture Partners, L.P: As of the end of the fourth quarter, Timberline had invested \$51 million in 18 portfolio companies. Cumulative distributions were \$5 million. The remaining portfolio consisted of eight companies with an estimated fair value of \$11 million.

Timberline's Annex Fund invested \$500,000 in four of the most promising Timberline Venture Partners portfolio companies as follows: Stirling Bridge - 34%, Unisite (part of Stirling Bridge) - 17%, Zairmail - 39%, NVST - 10%. CTC noted that this fund will be challenged to return capital.

Northwest Technology Ventures: As of December 31, 2005, NTV had called approximately \$3.2 million of its \$14 million in committed capital. During the fourth quarter of 2004, NTV had its initial liquidity event as Zeus Semiconductor sold its assets and the company was in the process of an orderly liquidation.

Distribution Pacing Analysis

Wei Huang presented a distribution pacing analysis at the request of John Castles and in response to Pat Scruggs, Innovation Economy Officer for the State of Oregon. Mr. Huang presented cash flow projection models and three different scenarios. He noted that the OGA fund is still "immature" and dependent on performance. He outlined the following conclusions:

- The OGA is still at its early "Investment Phase" ("J-Curve" effect).
- Dependent on the overall performance of its underlying portfolios, OGA would not reach its "Harvesting Phase" and be able to post any positive earnings for the account, as a whole, in the next several years.
- It usually takes four to six years for a single fund to be cash flow positive and it will take even longer for a portfolio of funds invested over a period of vintage years to turn cash flow positive.

Mr. Huang answered questions from the Board.

Randall Edwards expressed appreciation for Mr. Huang's efforts and noted the challenge to grow the fund in the proper timeline as well as to meet the needs of the Legislature and the Economic Development Department.

V. Public Comment

There were no comments from the public.

The meeting adjourned at 12:50 pm.

Respectfully submitted,

Norma Harvey
Investment Coordinator