

**Oregon Growth Account Board  
Minutes  
September 13, 2005**

The meeting of the Oregon Growth Account Board was called to order at 10:30 am by Chair, Randall Edwards.

**OGA Board Members Present:** Richard Bader, John Castles, Randall Edwards, Jim Johnson, Stan Timmermann and Steve Vincent.

**Staff Members Present:** Norma Harvey, Wei Huang, Kevin Max and Mike Mueller

**Legal Counsel:** David Elott, Oregon Department of Justice

**Consultants Present:** Bill Armitage, CTC Consulting

**I. Approval of Minutes – June 7, 2005**

**MOTION:** John Castles moved approval of the 6/7/2005 OGA Board minutes as corrected. The motion was seconded by Stan Timmermann and passed unanimously by the Board.

**II. Timberline Venture Partners – Partnership Update**

Mike Mueller addressed the Board and noted that Timberline Venture Partners (TVP) has not been nearly as successful as hoped for. He further noted that accounting issues with TVP had recently come to light. He invited Bill Kallman and Jeff Tung to give the Board a partnership update and address the issue facing the fund and the partnership.

As of June 30, 2005 Timberline Venture Partners (TVP) has generated aggregate distributions of \$5 million or approximately 8.5% of drawn commitments. To date, the fund has generated an IRR that ranks it in the bottom quartile of the *Venture Economics* universe for venture capital funds formed during 1999. As of March 31, 2005, the TVP Annex Fund has also performed in the bottom quartile of the *Venture Economics* universe for venture capital funds formed during 2003.

Mr. Kallman and Mr. Tung discussed TVP accounting and audit issues and answered questions from the Board.

**III. OVP Venture Partners: Prospective Manager – OVP VII**

Mike Mueller introduced a prospective fund being formed by OVP, OVP VII. He noted that staff is not prepared to make a recommendation until additional

information is received and due diligence is performed by CTC. He introduced Jerry Langelier of OVP Venture Partners.

Mr. Langelier reviewed the fund being formed and noted that the Pacific Northwest contains global technology heavyweights such as Microsoft, Intel, Linux, the Institute for Systems Biology and HP yet is underserved by professional venture capital partnerships. He further noted that within the next two decades we will see major technology shifts in mobility, video processing, computational biology, networks and embedded software, the digital home and nanotechnology. OVP brings over 20 years of proprietary deal flow, start-up company operating experience, investing wisdom and top-tier returns to the business and have a proven commitment to Oregon.

Mr. Langelier outlined OVP's experience and IPO results, investment focus and strategy in building long term regional leadership. OVP performance and commitment to the Northwest was reviewed and Mr. Langelier answered questions from the Board.

After discussion with the Board, Mr. Mueller noted that staff and CTC would prepare a recommendation regarding OVP VII for presentation during the December OGA Board meeting.

#### **IV. Pacific Horizon Ventures – Partnership Update**

Mike Mueller addressed the Board regarding an OGA commitment made to Pacific Horizon Partners IV (PHPIV) 18 months ago. He invited Don Elmer and Jean-Pierre Laurent to explain the change in focus of the fund.

Don Elmer and Jean-Pierre Laurent of Pacific Horizon Ventures presented a partnership update:

- ❖ 11-18-03: PHP IV was forecast as a \$50m to \$75m fund to create 9 new “validation-stage” bioscience companies based on Northwest research.
- ❖ 5-24-04: Finalized agreement for a \$2m OGA commitment to PHP IV
- ❖ 9-13-04: At an OGA update meeting, PHV announced the closing of Pacific Horizon Annex Partners (PHAP), reduced PHP IV to \$25m to \$40m and forecast a Q4 2004 closing.
- ❖ Sept-Oct '04: Formed PHAP
- ❖ November '04: Investment in Rasiris
- ❖ November '04: \$6m PHP IV commitment from Biogen-Idex & OGA to \$25 million
- ❖ December '04: \$25m conditional commitment from EnterpriseSeattle (“bioStart” Initiative)
- ❖ June '05: Reconsidered the PHP IV investment model
  - Capital markets shift away from early-stage bioscience investments
  - Portfolio company time demand reduces capacity for new starts
  - Compelling follow-on investment opportunities among existing portfolio companies
  - Overwhelming appeal of PHAP

Mr. Elmer and Mr. Laurent outlined the revised portfolio model of PHAP II and discussed the aspects that have changed. Mr. Elmer further noted that PHP initiated the pause of the close due to demands on business. Board questions were addressed.

David Elott commented on the fact that the investment focus has changed from the original commitment. Changes to the original commitment were discussed by staff and the Board.

## **V. 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 6/30/2005.

### **Portfolio Update (Comments Provided By CTC Consulting)**

**Endeavour Capital Fund III, L.P:** As of June 30, 2005, Endeavour Capital Fund III had generated a net IRR of approximately 26.4%, which ranks the fund in the upper quartile (7.4% is the bottom delineation for the upper quartile) of the *Venture Economics* universe of buyout funds formed during 1999, as of March 31, 2005. 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.

**Fluke Venture Partners II, L.P (FVP 2):** As of June 30, 2005, Fluke Venture Partners II had called approximately 27% of its \$22.1 million of equity committed capital. FVP II is a licensed SBIC with total leverage available of \$37.2 million, of which it had drawn \$3.5 million as of the end of the second quarter.

**Riverlake Equity Partners Fund I:** As of June 30, 2005, Riverlake had called approximately \$13.0 million or 50% of the total committed capital of \$26.1 million. The fund expects to have an additional call of 10% in September to provide the required capital for the Fluid Logic and Advanced Decorative Systems acquisitions. The fund utilized its \$5 million credit line with LaSalle Bank to fund the acquisition of both companies which made funding the deal much smoother.

**SmartForest Ventures, L.P:** As of June 30, 2005, SmartForest Ventures had called approximately \$15.6 million of private capital, or 62.5% of its private limited partners' committed capital of \$25 million. SBA capital drawn to date totaled \$27 million, or 54% of available leverage (\$49.6 million).

**Tamarack Mezzanine Partners, L.P:** As of June 30, 2005, Tamarack had called \$4.45 million, or 67% of its total private capital commitments of \$6.65 million. It had also drawn approximately \$4.9 million, or 96%, of its original \$5.1 million SBA commitment, including \$1.3 million during the first quarter of 2005. In addition, Tamarack has applied for, and was granted, an additional tier of leverage amounting to \$6 million for which it has paid its commitment fee but has not drawn any capital.

**Northwest Technology Ventures (NTV):** As of June 30, 2005, NTV had made aggregate capital calls of \$4.02 million. Since inception through June 30, 2005, NTV has invested \$2.5 million in seven portfolio companies (three IT and four life science companies). NTV has exited one investment in Zeus Semiconductor, generating \$17,363 in proceeds on its \$25,000 investment. The rest of NTV's investments are held at cost. To date, the OGA has paid approximately \$1.5 million in management fees to NTV.

### **Further Discussion**

Members of the Board wished to revisit the Pacific Horizon Partners change in the portfolio model, focus and mandate. David Elott noted that PHP are attaching contingencies and qualifiers to the original agreement. He further noted that the subscription agreement was signed 18 months ago, but the fund never officially closed and the legality of the OGA commitment was questioned.

The Board discussed risks and the Oregon mandate. Members of the Board expressed a desire to discontinue the OGA commitment to PHP4 because of the changes to the original agreement.

**MOTION:** Jim Johnson moved to aggressively pursue a legal exit from the commitment to Pacific Horizon Partners IV, L.P. The motion was seconded by Steve Vincent and passed unanimously by the Council.

Mike Mueller discussed agenda topics for the December OGA Board meeting.

### **VI. Public Comment**

There were no comments from the public.

The meeting adjourned at 1:15 pm.

Respectfully submitted,

Norma Harvey  
Investment Coordinator