



Building Iowa's Entrepreneurial Ecosystem

2010 Progress Report



IOWA CAPITAL
INVESTMENT
CORPORATION

Including The Iowa Fund of Funds



The vision of the **Iowa Capital Investment Corporation** (ICIC) is to build Iowa's entrepreneurial ecosystem through an evergreen, self-sustaining fund of funds and partner venture funds.



ICIC and the **Iowa Fund of Funds** (IFOF) work to empower promising Iowa entrepreneurs and local investors by stimulating the growth of Iowa's professional venture capital and private equity industry.

Iowa Capital Investment Corporation

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Message from the President

In 2002, with the passage of the Iowa Capital Investment Act, the Iowa Capital Investment Corporation (ICIC) embarked on a mission to strengthen Iowa's economy by developing the entrepreneurial culture and the resources for venture capital investment in this state. It began with a recognition that we have new entrepreneurs generating ideas and plans here and existing companies with new opportunities to grow here, but few sources of equity capital to help them build great enterprises. In order to create a new level of prosperity, we needed a new approach to attracting capital and the type of business-building talent that can help Iowa businesses succeed.

The policymakers understood that this type of transformation could not happen overnight. So, they developed a program with a 50-year life span and \$100 million in contingent tax credits from the State to leverage the resources necessary to attract venture funds to Iowa. Establishment of the ICIC brought in the private sector expertise necessary to develop the Iowa Fund of Funds, capitalize it, and hire an experienced fund manager to make strategic investments that ultimately attract venture investors to Iowa.

The ICIC engaged Cimarron Capital Partners as the fund manager in 2005, and since that time, we have made steady progress. The Iowa Fund of Funds has selected nine venture capital funds for investment and has closed on commitments to seven of those funds. Managers of all selected venture funds are participating in a wide variety of Iowa venture activities and working with Iowa entrepreneurs.

We have some great success stories in a short amount of time. Already Iowa companies have received over \$32.6 million through the Iowa Fund of Funds investee funds directly and from other co-investments of equity and debt. This is investment that did not cost the State of Iowa a single dime and has catalyzed investment that likely would not have otherwise occurred. And, the best part is that this is just the beginning of a long-term program.

The Legislature took action in 2010 to lower the aggregate amount of contingent tax credits from \$100 million to \$60 million. We believe that was a step in the wrong direction and constrained our ability to achieve the goals of the program as originally intended by the Legislature. Our hope is that this gets reversed quickly by the new Legislature and the program is actually expanded to maximize the impact of this important activity.

The ICIC has been and continues to be available to serve as a resource of expertise to provide information to legislative committees and the executive branch on the advantages and disadvantages of a variety of investment programs in early to late stage capital. We stand ready to assist policymakers in developing sound economic development programs for Iowa.

In the meantime, the ICIC will continue to build on the strategy for long-term venture capital investment to benefit the State of Iowa and growth in our economy.



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About Iowa Capital Investment Corporation

In 2002, the Iowa Legislature enacted an economic stimulus package designed to encourage private investment in promising businesses throughout Iowa. The measures included incentives for angel investors, incentives for new seed funds, and a new structure, the Iowa Fund of Funds (IFOF), a program to better connect Iowa to the national venture capital community.

To oversee the IFOF, the Legislature authorized the formation of the Iowa Capital Investment Corporation (ICIC), a state chartered independent not-for-profit corporation organized under Iowa Code Chapter 504A and acting in the interests of the State of Iowa, and the Iowa Capital Investment Board (ICIB), a state agency.

In 2005, the Iowa Legislature adopted technical corrections to the statute, enabling the Iowa Fund of Funds (IFOF) to begin operations. IFOF raises private investment capital supported by contingent state tax credits. Upon its termination, ICIC is scheduled to turn the assets of the IFOF over to the State.

The objectives of the ICIC, as expressed in its enabling legislation (Iowa Code §§ 15E.61) is to achieve the following:

- Mobilize private investment in a broad variety of venture capital partnerships in diversified industries and locales.
- Retain the private-sector culture of focusing on rate of return in the investing process.
- Secure the services of the best managers in the venture capital industry, regardless of location.
- Facilitate the organization of the IFOF in which to seek such private investment and to create interest in such investments by offering state incentives for private persons to make investments in the IFOF.
- Enhance the venture capital culture and infrastructure in the state of Iowa so as to increase venture capital investment within the state and to promote venture capital investing within Iowa.
- Accomplish these purposes in such a manner as to minimize any appropriations by the state of Iowa.

ICIC accomplishes the purposes expressed in its enabling legislation via the organization and leadership of the IFOF. Today, the IFOF has invested in venture funds in life sciences, medical services, information technology, and later stage manufacturing, distribution and services.



About Iowa Fund of Funds

The Iowa Legislature created the Iowa Fund of Funds Program (IFOF) in 2002 to help level the national venture capital playing field and bring venture funds, expertise, and networked resources to assist Iowa entrepreneurs. The Legislature also directed that resources be allocated to support loan guarantees and other related credit enhancements for rural and small business borrowers.



Codified in Iowa Code §§ 15E.61 et. seq., the legislation, as amended in 2010, provides \$60 million of transferable Iowa tax credits to be used to support the capitalization of the IFOF and its investments in venture capital funds along with other specified programs. The tax credits, which are applicable against State income, franchise, and premium taxes, are contingent and have value to the holder only to the extent of future losses in the program, if any. To minimize the State's risk, the credits are limited to a maximum of \$20 million in any fiscal year.

Iowa Designated Investor, Inc. ("IDI"), a single purpose entity, provides capital to the IFOF with the help of commercial banks. Funding was first provided in 2005, supported by a \$10 million line of credit from West Bank in West Des Moines. Funding was expanded in February 2008, supported at that time by a \$30 million line of credit. IDI expects to provide additional funding on an as-needed basis.

Because the program raises private investment capital supported by contingent state tax credits, it operates without State appropriations. As of this date, no tax credits have been used. As a result, there has been no cost to taxpayers to create and operate ICIC or the IFOF.

A team of Iowa corporations stand ready to purchase these tax credits, without a discount, should the need arise. Their pledge to make purchases at par is a significant commitment to minimize the cost of the program to the State of Iowa. These commitments have been essential to enabling IDI to raise capital at a low cost.

The IFOF brings venture equity capital and expertise to Iowa entrepreneurs by investing in carefully selected venture capital funds, which are managed by teams of professional business builders. Each fund works with Iowa entrepreneurs; and in so doing brings expertise, networks, capital, and good management practices to Iowa firms.

Investments by the IFOF are expected to create jobs for Iowans and help diversify the state's economic base. Additionally, the IFOF reduces the inherent risks of venture capital by diversifying: investing over time in high quality venture funds with a variety of industry interests, investment stages, and geographic locations.



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Board of Directors

The ICIC Board of Directors consists of voting members that were selected based upon their expertise in areas related to venture capital investment, investment management, and supervision of investment managers and investment funds.



Dennis Murdock
President



John Rigler
Vice President



Bruce Tamisiea
Treasurer



Tim Urban

Dennis Murdock

CEO and Executive Vice President of Central Iowa Power Cooperative (CIPCO) based in Marion.

John Rigler

President of Rigler Investment Company and President and CEO of Security State Bank in New Hampton.

Bruce Tamisiea

President of Tecton Industries, a precision manufacturing job shop in Spencer, and a former board member of the Iowa Seed Capital Corporation.

Tim Urban

President of Urban Development Corporation, a commercial and residential real estate development company, former Des Moines City Councilman and member of the Governor's 2010 Commission.

Fund Manager

Cimarron Capital Associates I, L.L.C. ("Cimarron") is the professional manager of the Iowa Fund of Funds program.

Counsel

Represented by the Davis Brown Law Firm, the firm delivers comprehensive legal service to the Board.

Auditor

ICIC, IFOF, and IDI are audited by KPMG. These audits are published by the State of Iowa Auditor.

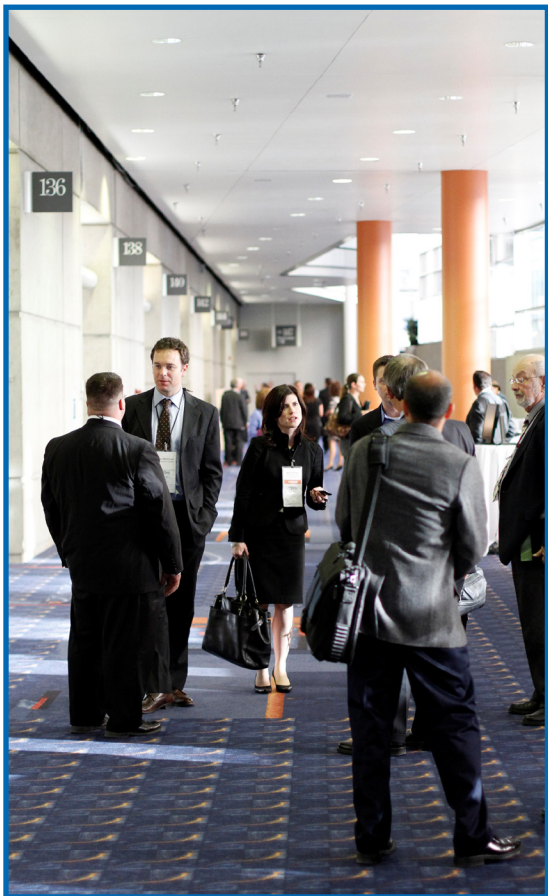
Cimarron Capital Associates

For over fifteen years, the principals of Cimarron Capital Associates (and affiliates) have designed, built and managed innovative fund investment programs. They work closely with their clients to deliver effective, customized venture capital and private equity portfolios. Since 1993, Cimarron principals have launched four funds and advised over 20 states and organizations in fund design and portfolio construction. The firm has an office in Des Moines and operations in Oklahoma City, Little Rock, Phoenix, and Chicago.



Iowa's Venture Capital Environment

The economic well-being of Iowa depends on the creation and growth of competitive, knowledge-intensive companies capable of success in high-growth domestic and international markets. These companies depend on Iowa's access to sophisticated risk capital and investment skills, employee talent, and a network of connections to entrepreneurial resources. These are all essential ingredients for a vigorous entrepreneurial Iowa.

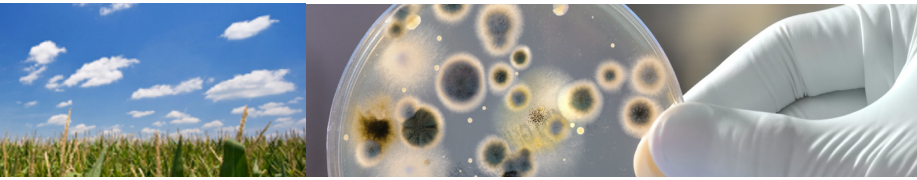


One important source of such money, talent and connections is found in America's professional venture capital firms. Most of these firms have traditionally focused their efforts on the east and west coasts, leaving the rest of the country, including Iowa, with little access to the necessary resources of the national venture capital network. In recent years, leading states (including Iowa) have forged creative ways to connect themselves to this network, seeking to ensure that their most promising entrepreneurs have a chance to compete on a level playing field with their peers in the venture capital-rich areas of the country.

In the venture capital world, many companies seeking funding from experienced venture capitalists do not meet minimum investment standards and are not funded. The same will be true of companies in Iowa, and perhaps to a larger extent because the venture capital environment in Iowa is still young. For that reason, success of the Fund of Funds is substantially more than just the number of Iowa companies that receive funding from professional venture capitalists.

Aspiring entrepreneurs are provided the opportunity to gain an understanding of the standards required by venture capital firms; to address deficiencies, and to meet those standards. Companies that achieve these national standards of quality will be more likely to find the capital they need to grow and prosper. The ultimate success of IFOF's investments will help build overall economic momentum, and catalyze cultural change and a more robust entrepreneurial ecosystem in Iowa in the years and decades to come.





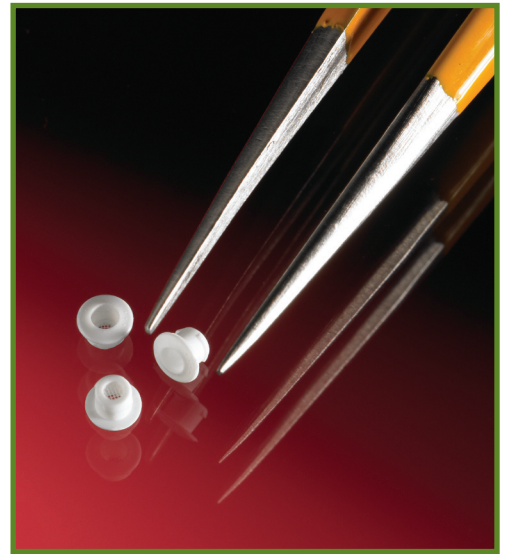
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Investment Objectives

Working with its fund manager, ICIC has developed a formal policy to guide the allocation of venture fund investments and achieve the strategic objectives of the IFOF. By investing in a diverse set of private venture capital funds, the IFOF can connect Iowa's most promising entrepreneurs with the full resources of the national venture capital network.

Each fund management team agrees to establish an appropriate presence within the state and work with entrepreneurs. They may interface with angel investors, other venture funds, university tech transfer and development staff, economic developers, and corporate business development groups to identify promising Iowa opportunities.

To minimize the use of Iowa contingent tax credits, the IFOF invests only in carefully selected and diversified private equity and venture capital funds with capable management teams and a demonstrated history of earning market rates of return. In the aggregate, the portfolio is being constructed to be broadly diversified across industries, time and geography, and across stages of investment within the following general guidelines:



<i>Investment Stage</i>	<i>Percent of Investment</i>
Early Stage (includes seed and startup)	10% - 20%
Traditional Venture Capital	30% - 40%
Later Stage (includes expansion & mezzanine)	40% - 50%
Special Situations (turnarounds, restructuring, etc.)	3% - 7%

To meet the needs of the Iowa economy, fund commitments are focused in several strategic cluster industries:

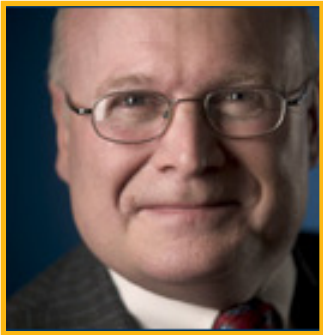
Life Sciences (including agricultural technology, animal sciences and clean-tech)
Information Technologies
Financial Services
Advanced Manufacturing
Other Emerging Sectors



Investment Activities

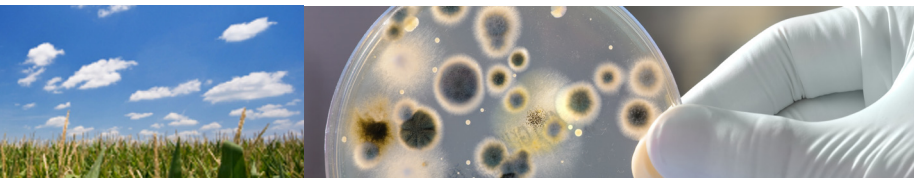
The IFOF has selected a total of nine venture capital funds for investment that meet the objectives of the program. As of December 31, 2010, seven investment commitments have closed, which include the following funds:

Prolog Ventures Fund II A \$5 million commitment to this \$66 million early stage life sciences fund focused on deals in the central Midwest. Based in St. Louis, the managers of Prolog Ventures engaged a local representative in Iowa and formed an investment advisory board consisting of key members of the life sciences and entrepreneurial communities from Iowa State University and the University of Iowa.



Bayview Capital Partners Fund II
A \$2.7 million commitment to this \$125 million fund focused on late-stage manufacturing, services, and distribution companies in the Midwest. Based in Minneapolis, the fund is a licensed Small Business Investment Company. The managers of Bayview Capital Partners are engaged in extensive marketing, development, and educational efforts within Iowa in partnership with Iowa banks, attorneys, and CPAs.





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Petra Growth Fund II



A \$5 million commitment to a \$160 million private equity fund, licensed as a Small Business Investment Company, focused on debt and equity investments in high growth small businesses. The managers of Petra are engaged in extensive marketing, development, and educational efforts within Iowa, and have engaged the Des Moines firm LWBJ Financial to extend their marketing reach.



· STONE ARCH CAPITAL ·

Stone Arch Capital II

A \$6 million commitment to a \$151 million private equity fund that focuses on investing in later stage companies that offer solid potential for growth, introduction of new products and add-on acquisitions. Stone Arch has special expertise in manufacturing of agricultural equipment.



Investment Activities

Village Ventures Fund II A \$5 million commitment to this \$104 million fund launched in February of 2007 focused on consumer media and retail, health care and financial services in emerging U.S. technology centers which possess world class innovation but generally lack local sources of institutional early stage capital. Village



Ventures, based in Boston, is a seed and early stage venture capital firm. The managers of Village Ventures have engaged a local representative in Iowa and have a vigorous program to identify prospective companies. In 2009, IFOF committed an additional \$1.2 million to a supplemental fund of \$30.6 million.



LFE *Capital*

LFE Growth Fund II A \$5 million commitment to a \$32.8 million fund that invests growth and expansion capital in smaller middle-market growth-stage companies in

the business services, consumer and health sectors. Based in Minneapolis with an office in Ankeny, LFE has a special emphasis on businesses that are owned or led by female entrepreneurs or that serve markets of interest to women.



OCA Ventures II A \$5 million commitment to a \$50 million seed and early stage venture fund focused on core technologies, financial services, for-profit education and technology-enabled services. OCA Ventures is based in Chicago.

OCA VENTURES



Two additional funds have been selected for investment but are still in the investment pipeline.

- A \$6 million pending investment in a \$125 million fund that will focus on early-stage firms offering technology-enabled or business information services with an emphasis on information technologies, life science (medical devices, healthcare IT, and animal/plant sciences), and wireless technologies.
- A \$7 million pending investment in a \$100 million fund that will focus on expansion and late-stage financing in small companies.



The managers of all of the selected venture funds have agreed to participate in a wide variety of Iowa venture activities, including the annual Iowa Entrepreneurs Conference and Venture Forum in Des Moines co-sponsored by the ICIC and the Iowa Department of Economic Development. Each fund has also committed to conduct aggressive deal prospecting in the state. Their presence in Iowa gives Iowa entrepreneurs an avenue to directly interface with potential funders and help build business plans and financial strategies that will meet the market test. The presence of venture capital firms in Iowa expands the likelihood that Iowa entrepreneurs will obtain the capital they need to grow and prosper.



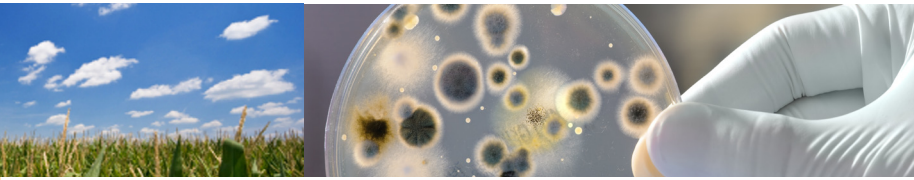
Investment Results

As of December 31, 2010, Iowa companies have received over \$32.6 million of equity and debt financing as a result of the work of IFOF portfolio funds, including \$ 16.9 million directly from the IFOF venture funds and the balance of \$15.7 million leveraged from other sources.

- **Bayview II** invested in Accumold, Inc. of Ankeny, a precision maker of small, high technology molded plastic parts with exciting prospects in medical devices and advanced manufacturing markets.
- **LFE Growth Fund II** invested in Global ID Group, of Fairfield, a leading provider of testing and certification for food and agricultural products.
- **Prolog Venture Fund II** invested in Asoyia, of Iowa City, a developer of soybean oil with zero trans fats.
- **Bayview II** invested in AppleWhite Dental Partners, of Dubuque, a dental practice management company with facilities in Cedar Rapids, Ft. Dodge, Manchester, and Osceola.
- **LFE Growth Fund II** invested in JobDig, a multi-media employment service company operating in Des Moines and which has a significant presence throughout Iowa.
- **StoneArch Capital I** invested in a custom printing and mailing company in Des Moines.



With these investments, the IFOF has attracted to the Iowa economy more than one and one-half times the \$21.7 million drawn from IFOF by its portfolio funds through 2010. This illustrates the economic multiplier potential of the IFOF program.



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Capital Leverage. Part of this leverage represents the ability of the IFOF to make large capital resources available to Iowa enterprises by making carefully selected, smaller capital commitments to venture funds that raise the vast majority of their capital competitively from other institutional investors. The seven portfolio funds have raised nearly \$600 million in commitments meeting the test of the private market -- they compete world-wide for capital.

Co-Investment Networks. The managers of IFOF portfolio venture funds also bring extensive networks of venture and private equity co-investors able to multiply their own direct investments. Over time and in aggregate, every dollar invested by IFOF portfolio funds in Iowa companies is expected to attract two to three matching dollars from co-investors.



Investing Culture and Expertise. Finally, the managers of IFOF portfolio venture funds bring investing expertise into the state. Iowa has historically lagged other states in the breadth and vigor of its entrepreneurial economy in high-knowledge and high-growth industries. By importing expertise and culture, we transmit the “intellectual DNA” of entrepreneurship and venture investing into our Iowa ecosystem and help jump-start a more dynamic economy better able to compete in global technology markets.



Success Stories

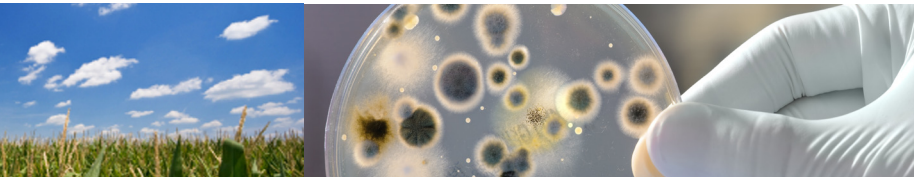
Investments by ICIC portfolio venture funds have catalyzed millions of dollars for Iowa companies. The following are a few of these.



Global ID Group is a family of companies dedicated to the production of safe, healthy, and ethical food. Global ID Group began in 1996 with the founding of Genetic ID, Inc., whose central mission was to provide the tools and knowledge needed to respond to consumer concerns, industry needs, and government regulations regarding genetically engineered foods. Genetic ID is a global leader in the analysis of genetically modified organisms (GMOs) in food and agricultural products. In recent years, Genetic ID has diversified its services to include third-party certification and consulting and a range of advanced testing services, enabling Global ID to broaden its mission over a much wider portfolio of emerging food safety, quality, and authenticity issues. **Today, Global ID serves more than 1,000 of the largest firms in the global food and agricultural industries with offices in 5 countries and 18 licensee laboratories in 14 countries.**



Accumold® began in a rented garage in 1985 manufacturing very small micro-sized parts other companies could not produce. Accumold is one of the oldest companies still in the micro-molding business. The original 1985 Micro-Molder® was designed to manufacture small parts with minimal waste and short cycle times for the electronic component manufacturers. **They continue to focus on industries that demand fast turnaround and small, complex parts such as Micro Electronics, Automotive, Fiber/Optic, Medical, and Military, as well as emerging technologies and markets.** The company's tooling, molding, packaging and metrology are all done under one roof in a 38,000 square foot facility located near Ankeny, Iowa. With 15 acres of property, plans include expanding to 200,000 square feet. Strategically located near Des Moines Area Community College (DMACC), Accumold has access to some of the most skilled and brightest professionals in the business.



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AppleWhite Dental Partners provide both business support and professional mentoring and consulting services to the dental industry. Existing practices joining the group receive business



support in areas such as accounting, marketing, finance, purchasing, human resources and information technology, while the dentists continue to deliver

dental services to their patients. **This cooperative partnership allows the established dentist to focus on delivery of care and to maintain ownership status without having to deal with the hassles of administration.** In addition, the group provides mentoring and support for new and young dentists,

allowing them a stress-free transition from education to private practice.



JobDig is a national employment-focused media company. They deliver weekly job opportunities through print, radio, television and online channels to help local employers connect with active and passive jobseekers. **JobDig serves 16 markets in 15 states including Arkansas, Illinois, Iowa, Kansas, Kentucky, Minnesota, Nebraska, North Dakota, Oklahoma, Pennsylvania, South Dakota, Tennessee, Texas, Utah, and Wisconsin.** They have a significant presence in Iowa and distribute a weekly free newspaper for job seekers throughout the state.





Other Efforts



Iowa Angel and Seed Fund Quarterly Meetings

The ICIC hosts a meeting of Iowa angel and seed fund groups every three months to provide a forum for sharing investment opportunities. The meetings also encourage and facilitate communication among angel investors and venture investors to increase local capacity to invest in attractive deals and exchange ideas for expanding the venture capital and seed capital network in Iowa.



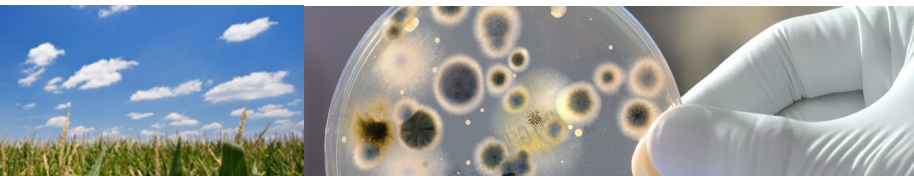
New Markets Tax Credit Program

The Iowa Capital Investment Corporation provided the initial capital to start Iowa Community Development. Since Inception, Iowa Community Development has secured \$165 million for Iowa from the Federal New Markets Tax Credit Program and launched a fund to spur loans and capital investments in underserved areas. Projects have been funded in Dubuque, Sioux City, Des Moines, Fairfield, Mason City, Corwith and Davenport.



Okoboji Summer Entrepreneurship Institute 2010

The Okoboji Entrepreneurship Institute provided students an advanced study of entrepreneurship on August 1-6 as well as networking and mentoring to enhance their understanding of opportunities in Iowa. The 32 budding entrepreneurs from Iowa universities and community colleges worked in teams on a computer-based simulation that incorporates the creation and operation of a new business and a fundraising round where teams present their plans to community venture capitalists to acquire capital to fuel growth for their simulated businesses. ICIC was pleased to support their efforts.



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2010 Iowa Venture Forum

Entrepreneurs, investors, students, and startup service providers from around the state met in Des Moines for the 2010 Venture Forum and Entrepreneur's Conference on October 5-6. The event included pitches from 12 start-ups that had been pre-selected from a pool of more than 25 applicants. The entrepreneurs' pitches were heard by local venture capitalists, the IFOF portfolio funds, angels and other investors. Over 50 one-on-one meetings with venture firms and Iowa entrepreneurs were held.



Iowa Tax Credit Purchase Consortium

The Iowa Capital Investment Corporation wishes to extend a special Thank You to the members of the Iowa Tax Credit Purchase Consortium and to the Iowa Association of Business and Industry for its support of this initiative.

The ICIC uses contingent tax credit contracts to attract investment capital. The members of the Consortium stand ready to purchase tax credits at par. These contracts help the Iowa Fund of Funds to raise capital and get the greatest value for the state's commitment. No tax credits have been redeemed through the end of 2010 -- the program has been implemented at \$0 cost.

"Iowa has great potential to grow large companies from small ones. We just need the capital to do it. We joined the ICIC Tax Credit Purchase Consortium to bring needed venture capital to our great state."

— Mike Bauer
Quad City Bank & Trust

The members of the Consortium include:

- Ames National Corporation
- Dubuque Bank & Trust
- Delta Dental of Iowa
- First National Bank of Muscatine
- Iowa Network Services
- Interstate Power and Light Company
- Quad City Bank and Trust

Thank you for being great corporate citizens and supporting venture capital in the state of Iowa.



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