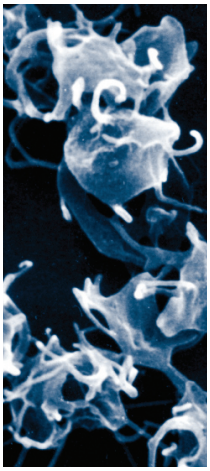
21ST CENTURY FUND

9TH REPORT
to the Indiana General Assembly



21ST CENTURY RESEARCH & TECHNOLOGY FUND

JULY 1, 2009

JUNE 30, 2010

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This report is available online at **21fund.org**

LETTER FROM THE LEADERSHIP

E. Mitchell Roob, Jr.
Secretary of Commerce

Dear Legislator,

We are happy to provide this report of the activities of the Indiana 21st Century Research and Technology Fund (21Fund) between July 1, 2009 and June 30, 2010.

Since 2008, Indiana entrepreneurs have found it increasingly more difficult to access the necessary capital to develop new technologies and grow in Indiana. This is occurring while nationally nearly 100% of all new jobs are expected to come from small businesses. For Indiana to fully participate in this growth, new resources and partnerships will be needed.

To that end, the 21Fund has conducted its Angel Outreach program, which seeks to promote the development of regional investor networks and to encourage fellow Indiana citizens to invest in high-growth Indiana companies. The 21Fund has also partnered with Jumpstart Inc., non-profit venture development organization from Cleveland, Ohio, to study how Indiana can provide strategic management services to entrepreneurs on a regional basis. These activities are in addition to the 12 new 21Fund investments made during the last fiscal year totaling $12.65 million; and the 66 federal match funding awards made by Small Business Innovation Research (SBIR) or Small Business Technology Transfer (STTR) program totaling $6.72 million.

Despite these challenging times, 21Fund investments have attracted substantial federal and private sector matching funds on a 3 to 1 basis through which technical and business risks have been managed. Our SBIR/STTR program, which provides early-stage proof-of-principle and product prototyping phases, results in a 4 to 1 leveraging of federal funds.

LETTER FROM THE LEADERSHIP

Through your work, the 21Fund has continued to address Indiana's entrepreneurship and innovation gaps since 1999. Other States are now recognizing the need to reinvest into their entrepreneurship sector, and the federal government continues to announce new initiatives aimed at developing match-funding programs for entrepreneurs.

Your continued partnership remains critical for Indiana to participate in the new economy. Indiana must continue to diversify its economy, retain Indiana's most promising entrepreneurs, attract new investment and create tomorrow's jobs. In fact, our mission is more critical now than ever.

For your convenience, we have included several company profiles in order to communicate the excitement and promise of the State's entrepreneurial sector, which needs the appropriate resources if it is expected to provide the majority of new high-paying jobs in the decades ahead.

E. Mitchell Roob, Jr.
Secretary of Commerce

Steve Hourigan
IEDC Director of Entrepreneurship

Steve Hourigan
IEDC Director of Entrepreneurship

21 FUND OVERVIEW

During the reporting period, the 21Fund has made investments in 12 companies ($12,650,000) through its direct awards, and has provided matching funds to 66 Indiana companies ($6,717,476) that have received federal Small Business Innovation Research (SBIR) or Small Business Technology Transfer (STTR) awards (Appendix A). These awards, involving entrepreneurial small/young businesses, have attracted substantial federal and private sector matching funds (3:1), through which technical and business risks have been managed.

This year the Ball State University Center for Business and Economic Research, headed by Dr. Michael Hicks, conducted an independent analysis of 21Fund processes and outcomes, which notes the significance of the evolution of the 21Fund's focus from initial capacity building, to company development, to a combination of high-growth market entry and early stage product feasibility studies. Near-term outcomes measures indicate that, since late 1999, strategic investment of $265,310,154 by the 21Fund has engaged approximately one billion dollars in the development of the State's high-technology sector. Over 11,000 near-term jobs have been created, at a cost of about $14,000 per job, and the 21Fund's impact on the State's real GDP has been $427 million. An executive summary of this report is provided in Appendix A.

Two critical needs of the high technology business development ecosystem in Indiana involve: (1) the critical funding continuum required by developing companies, and (2) the talents of a sufficient number of able entrepreneurs. Responding to these needs, the 21Fund has initiated a demonstration project involving the EDA, Knight-Ridder Corp, Cleveland-based JumpStart, and three northern Indiana counties. This program, and its planned implementation across all 93 counties, is explained in this report.

INTRODUCTION

In creating the Indiana 21st Century Research and Technology Fund (21Fund) in 1999, the Indiana General Assembly addressed catalyzing the long-term build up of the State's high-technology business sector and the jobs it will create. It is notable that within the high-technology sector, 80% of new industries derive from academic research. Between 1980 and 2005, firms less than five years old were responsible for almost all of the 40 million net new jobs created nationwide[1]. Financial market contractions since 2007 have sorely affected capital availability, particularly for the small/young business sector. This is critical for the State's economy in view of the continuing transition of the world's economies to 'entrepreneurial capitalism', itself built on technological innovation leading to intense small business activity—the primary locus of jobs creation (and turnover) in the US economy[2]. Thus, innovation, entrepreneurship, and economic growth are closely linked, providing an essential context for stimulating commercial activity in Indiana and benefiting from the jobs that result.

The new Ball State University study, as well as a previous external review of the 21Fund conducted in 2004, indicates that the 21Fund has capably implemented state of the art approaches to facilitating the emergence of a vibrant high technology sector in Indiana. However, the nation, including Indiana, is rapidly transitioning to an 'entrepreneurial' economy[3]. This transition is characterized by a move to small and young firms that focus on the management of knowledge. Such companies are highly networked, frequently involve disruptive technologies and products, pay higher wages, and interact intensively with their customer base.

Appendix (B) of this report includes summary information describing a number of recent awards made by the 21Fund to companies that are both entrepreneurial and potentially gazelle-like in growth potential, including: Scale Computing, Compendium Blogware, and SonarMed. Endocyte, an Indiana diagnostic and therapeutic company, which has received 21Fund investments, is now in the IPO process.

Access to capital and entrepreneurial talent are central problems facing Indiana's high-technology commercial sector. Two forces are at play in the capital markets. First, entrepreneurial companies present unique challenges to a financial system that has been honed in the 'old' economy. The OECD calls this problem one of 'information asymmetry', since such companies' primary value resides in intangible, and complex, intellectual property assets. Second, financial markets are now functioning inefficiently. This realization impels an important transition for the 21Fund, from an organization implementing centralized processes to a highly distributed organization, supporting the self-determined actions of local communities, as they fashion and develop their high technology businesses.

INTRODUCTION

[1] R. C. Atkinson and P.A. Pelfrey (2010) **Science and the Entrepreneurial University** *Issues in Science and Technology* Summer 2010, pp. 39-48.

[2] Entrepreneurship, Growth, and Public Policy (2009) Z.J. Acs, D.B. Audretsch, R.J. Strom; Cambridge University Press.

[3] A.R. Thurik (2008) The 'Managed' and the 'Entrepreneurial' Economy. World Entrepreneurship Forum, 2008 Edition. (www.world-entrepreneurship-forum.com)

KEY 21FUND INITIATIVES

IDENTIFYING & PUTTING INDIANA'S INNOVATION NETWORK TO WORK

Technological innovation activities comprise all of the scientific, technological, organizational, financial, and commercial steps, including investments in new knowledge, which lead to the implementation of technologically new or improved products and processes. Yet, no state has fully characterized or optimized its innovation network: the personal, intellectual, institutional, and communications elements, and their interconnections, that support the entire technological innovation process.

However, informatics tools now exist that for the first time permit the highly granular characterization and visualization of all of the elements of 'Indiana's Innovation System' and their interactions. Such a representation is not limited to individual product, service, or process sectors, and by reaching across all technologies this representation enhances particularly those activities that occur between sectors, the most fruitful venue for new commercial success.

In collaboration with IU, Purdue, and a small business in West Lafayette, Knowrtal, the 21Fund will expand a technology expertise database (INdure[4]) that was initially developed with IEDC support. Our goal is creation of a database permitting easy geo-spatial visualization of all technologies, support services (including legal, banking, investing, accounting, etc.), jobs availability, companies, federal funding opportunities, etc. This will bring together technology creators and business and entrepreneurial talent.

KEY 21FUND INITIATIVES

BROADENING PARTICIPATION & REWARDS ACROSS INDIANA

While the 'Innovation Network' described above will begin the process of fully integrating technology development and private sector finance across the entire State, the Innovation Network databases and Statewide financial incentives and tools will be centrally managed, but widely available.

The 21Fund will engage in a systematic 'Angel Outreach' program to engage potential investors across the State with emerging and high-growth companies. These Angels will be able to take advantage of the 21Fund's technical review and business vetting capabilities in order to minimize early stage project identification risks.

To address the critical needs in capital and talent, the 21 Fund has partnered with Jumpstart, a nationally recognized non-profit based in Cleveland, Ohio. Jumpstart creates economic transformation by efficiently securing and providing a continuous stream of resources to entrepreneurs leading to high potential, early-stage companies. Jumpstart engages and acts with federal, state, and community policy makers, civic leaders, and leaders in the venture capital and angel investing communities to secure the resources necessary for growth. In 2010, Jumpstart was chosen by the Economic Development Agency to simulate its economic development approach in six Midwestern communities, including two in Indiana. The EDA intends to support the program roll-out across the United States.

To capitalize on this opportunity and to solve the capital and talent issues, the 21Fund intends to:

- Accelerate attraction of federal funding through the EDA rollout
- Engage national and regional foundations
- Pursue a systematic 'Angel Outreach' program to engage potential investors across the State with emerging and high-growth companies.
- Implement entrepreneur in residence' program[5].

The operational focus of these initiatives is to put appropriate entrepreneurial support systems in place at regional and community levels. Previous 21Fund support succeeded in enhancing entrepreneurial capacity-building in many key technology innovation centers within the state.

KEY 21FUND INITIATIVES

The next crucial step is to assist communities across the entire state by ensuring regional presence and providing community-level support, including:

- Garner support from local economic development entities and civic leaders.
- Establish staff presence in the communities to ensure deal flow and due diligence sharing.
- Organize and maintain regular interaction with local and regional angel investors to secure support for seed and early-stage funding.
- Provide entrepreneurs-in-residence assistance to match local new and young companies with managerial and funding resources, including the capability of attracting out-of-state capital.
- Enhance the visibility of companies and communities to regional and national financial markets.

The 21 Fund has succeeded in executing a pilot program in Northern Indiana, and we expect to roll out the similar initiatives across the entire state, providing information sharing tools and much-needed resources to support all communities in their transition to technology-based entrepreneurial economies.

ENHANCED EARLY STAGE TECHNOLOGY-BASED COMPANY DEVELOPMENT

During this fiscal year we have been forced to limit several SBIR/STTR enhancement activities of the 21Fund. The SBIR/STTR Phase I matching limit has been lowered to $75,000 from $100,000, and the Indiana SBIR/STTR Commercialization Enhancement Program (ISCEP) has been suspended. It is important to restore and enhance these programs, since they provide the State's key support to new technology-based companies, an essential component of Indiana's jobs creation pipeline.

[4] INdure currently contains the technical expertise of faculty at IU, Purdue, IUPUI, and Notre Dame. It is available at the 21Fund web site: 21Fund.org or INdure.org

[5] An example of this approach is JumpStart in Northeastern Ohio.

21FUND AWARDS FY09-10

COMPANY	INDUSTRY	AWARD	MATCHING PRIVATE CAPITAL	5 YEAR JOB PROJECTION
Morris Innovative Research (Follow-On Award)	Life Sciences/Health Care	$ 1,500,000	$ 3,500,000	105
Advanced BioImaging Systems	Life Sciences/Health Care	$ 1,300,000	$ 1,300,000	99
Symbios Medical	Life Sciences/Health Care	$ 1,300,000	$ 1,750,000	223
Orthopediatrics	Life Sciences/Health Care	$ 2,000,000	$ 8,400,000	90
Companion Diagnostics	Life Sciences/Health Care	$ 500,000	$ 500,000	16
BidPal Network	Information Technology	$ 1,000,000	$ 1,000,000	206
Compendium Blogware	Information Technology	$ 1,000,000	$ 1,000,000	146
Indigo BioSystems	Information Technology	$ 250,000	$ 250,000	150
Jesubi	Information Technology	$ 500,000	$ 500,000	130
Wellfount Corp	Information Technology	$ 1,000,000	$ 1,000,000	465
APCI	Advanced Manufacturing	$ 1,300,000	$ 750,000	63
XADS	Advanced Manufacturing	$ 1,000,000	$ 3,000,000	54
Total for Fiscal Year 2009-2010		**$12,650,000**		

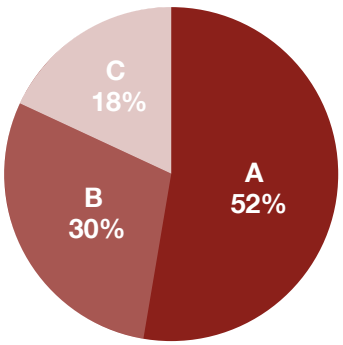
INDUSTRY SECTOR BREAKDOWN

A LIFE SCIENCES (5)

B INFORMATION TECHNOLOGY (5)

C ADVANCED MANUFACTURING (2)

INVESTMENT DOLLARS



SBIR/SRRT AWARDS FY09-10

PHASE I MATCHES

COMPANY	AWARD	FEDERAL AWARD	CITY	COUNTY	FUNDING AGENCY
Aeon Imaging, LLC	$ 100,000.00	$ 247,389.00	Bloomington	Monroe	
ApeX Therapeutics, Inc.	$ 100,000.00	$ 225,064.00	Indianapolis	Marion	DHHS/NEI
BioRegeneration	$ 99,394.10	$ 99,394.00	West Lafayette	Tippecanoe	USAMRAA
Candent Technologies, Inc.	$ 69,993.80	$ 99,889.41	Greenfield	Hancock	Navy
Candent Technologies, Inc.	$ 100,000.00	$ 147,355.00	Greenfield	Hancock	DoE
Chalklabs	$ 97,404.00	$ 97,404.00	Bloomington	Monroe	
Coping Steps	$ 92,850.00	$ 92,850.00	Indianapolis	Marion	CDC
CourseLoad, LLC	$ 100,000.00	$ 100,000.00	Indianapolis	Marion	NSF
CreateAbility Concepts	$ 75,000.00	$ 75,000.00	Indianapolis	Marion	DoEd
Criterion Health	$ 75,000.00	$ 75,000.00	Terre Haute	Vigo	NIH
Engine Research Assoc	$ 98,927.00	$ 98,927.00	Fort Wayne	Allen	DoD/Darpa
En'Urga	$ 100,000.00	$ 150,000.00	West Lafayette	Tippecanoe	NSF
En'Urga	$ 100,000.00	$ 149,066.00	West Lafayette	Tippecanoe	NSF
Fiji Systems	$ 100,000.00	$ 100,000.00	Indianapolis	Marion	NSF
Fiji Systems	$ 100,000.00	$ 99,999.00	Indianapolis	Marion	AFRL
General BioTechnology	$ 100,000.00	$ 100,000.00	Indianapolis	Marion	NIH/NCRR
General BioTechnology	$ 100,000.00	$ 142,441.00	Indianapolis	Marion	NIH
Hans Tech	$ 100,000.00	$ 100,000.00	West Lafayette	Tippecanoe	NSF
Hans Tech	$ 100,000.00	$ 150,000.00	West Lafayette	Tippecanoe	NSF
IBC Materials & Technologies	$ 79,935.41	$ 99,843.00	Lebanon	Boone	DoD/Navy
Independence Science, LLC	$ 100,000.00	$ 149,999.00	West Lafayette	Tippecanoe	NSF
Indiana Microelectronics, LLC	$ 95,712.00	$ 95,712.00	West Lafayette	Tippecanoe	USAF/AFMC
Indiana Nanotech	$ 100,000.00	$ 102,110.00	Indianapolis	Marion	NIH
Indiana Nanotech	$ 100,000.00	$ 204,777.00	Indianapolis	Marion	NIH/NIDCR
Information In Place	$ 100,000.00	$ 100,000.00	Bloomington	Monroe	NIH

KEY

DoC	Department of Commerce	NASA	National Aeronautics and Space Administration
DoD	Department of Defense	NIH	National Institute of Health
DoE	Department of Energy	NOAA	National Oceanic and Atmostpheric Administration
DOT	Department of Transportation	USDA	United States Department of Agriculture
EPA	Environmental Protection Agency		

SBIR/SRRT AWARDS FY09-10

PHASE I MATCHES

COMPANY	AWARD	FEDERAL AWARD	CITY	COUNTY	FUNDING AGENCY
Information In Place Inc	$ 100,000.00	$ 150,000.00	Bloomington	Monroe	DHS
Information In Place, Inc.	$ 100,000.00	$ 149,990.00	Bloomington	Monroe	NSF
Innovative Energy Solution, Inc.	$ 100,000.00	$ 100,000.00	Highland	Lake	DoE
InSpace	$ 98,475.00	$ 98,475.00	West Lafayette	Tippecanoe	DoD/AF
IV Diagnostics	$ 100,000.00	$ 124,466.00	West Lafayette	Tippecanoe	NIH/NCI
Jabiru	$ 99,900.00	$ 99,900.00	West Lafayette	Tippecanoe	NASA
Jabiru	$ 99,900.00	$ 99,900.00	West Lafayette	Tippecanoe	NASA
Kylin Therapeutics, Inc.	$ 100,000.00	$ 200,000.00	West Lafayette	Tippecanoe	NIH
LewTech Company, Inc.	$ 79,906.00	$ 79,906.00	Fort Wayne	Allen	DoD
M4 Sciences	$ 100,000.00	$ 149,989.00	West Lafayette	Tippecanoe	NSF
MNB Technologies	$ 79,984.00	$ 149,619.00	Bloomington	Monroe	US Navy
Nesch	$ 25,000.00	$ 25,000.00	Crown Point	Lake	NIH
Nutrabiotix	$ 100,000.00	$ 247,561.00	West Lafayette	Tippecanoe	NIH
Odyssian Technology, LLC	$ 100,000.00	$ 100,000.00	South Bend	St Joseph	US Aif Force
PartTec, Ltd	$ 100,000.00	$ 177,826.00	Bloomington	Monroe	NIH
PC Krause & Associates, Inc.	$ 69,998.00	$ 69,998.00	West Lafayette	Tippecanoe	DoD/ONR
PCKA	$ 100,000.00	$ 100,000.00	West Lafayette	Tippecanoe	DOD-AFRL
PCKA	$ 69,993.59	$ 69,993.59	West Lafayette	Tippecanoe	
RFWare	$ 70,000.00	$ 70,000.00	South Bend	St Joseph	DoD/Navy
Selican Technologies	$ 100,000.00	$ 431,538.00	Indianapolis	Marion	NIH
Sertech Heating and Cooling	$ 77,173.00	$ 77,173.00	Portland	Jay	USDA
SkySight Technologies	$ 29,994.12	$ 29,994.12	Leo	Allen	DoD
SkySight Technologies	$ 80,000.00	$ 80,000.00	Leo	Allen	DoD/Navy
SkySight Technologies	$ 75,000.00	$ 99,999.91	Leo	Allen	OSD-USAMRAA
SonarMed	$ 100,000.00	$ 448,972.00	Indianapolis	Marion	NIH

KEY

DoC	Department of Commerce	NASA	National Aeronautics and Space Administration
DoD	Department of Defense	NIH	National Institute of Health
DoE	Department of Energy	NOAA	National Oceanic and Atmostpheric Administration
DOT	Department of Transportation	USDA	United States Department of Agriculture
EPA	Environmental Protection Agency		

SBIR/SRRT AWARDS FY09-10

PHASE I MATCHES

COMPANY	AWARD	FEDERAL AWARD	CITY	COUNTY	FUNDING AGENCY
Stimulus Engineering	$ 75,000.00	$ 99,993.00	Loogootee	Martin	MDA
Techshot	$ 69,989.00	$ 69,989.00	Greenville	Floyd	DoD/Army
Techshot	$ 99,953.00	$ 99,953.00	Greenville	Floyd	DoD
Techshot	$ 99,969.00	$ 99,969.00	Greenville	Floyd	NASA
Techshot	$ 75,000.00	$ 99,888.00	Greenville	Floyd	DoD-Navy
Techshot	$ 75,000.00	$ 79,997.00	Greenville	Floyd	DoD-Navy
The Academic Edge	$ 100,000.00	$ 100,000.00	Bloomington	Monroe	NIH
The Academic Edge	$ 100,000.00	$ 123,802.00	Bloomington	Monroe	NIH/ NIMH
This Old Farm	$ 78,705.00	$ 78,705.00	Darlington	Montgomery	USDA
Wolf Technical Services	$ 70,000.00	$ 119,636.00	Indianapolis	Marion	US Army
Xtreme ADS	$ 99,999.00	$ 99,999.00	Anderson	Madison	USAF
Zeeko	$ 84,321.00	$ 84,321.00	West Lafayette	Tippecanoe	NASA
Total for Fiscal Year 2009-2010	$5,567,476.02	$7,688,772.03			

INDIANA SBIR/STTR COMMERCIALIZATION ENHANCEMENT PROGRAM (ISCEP)*

COMPANY	AWARD	CITY	COUNTY
CreateAbility Concepts	$ 350,000.00	Indianapolis	Marion
M4 Sciences	$ 350,000.00	West Lafayette	Tippecanoe
Information In Place Inc	$ 350,000.00	Bloomington	Monroe
Total for Fiscal Year 2009-2010	**$1,050,000.00**		

*The ISCEP program was suspended in late 2009 due to funding constraint.

KEY

DoC	Department of Commerce	NASA	National Aeronautics and Space Administration
DoD	Department of Defense	NIH	National Institute of Health
DoE	Department of Energy	NOAA	National Oceanic and Atmostpheric Administration
DOT	Department of Transportation	USDA	United States Department of Agriculture
EPA	Environmental Protection Agency		

COMPANY PROFILES

This report identifies companies with this type of 'gazelle' potential[4] (Collected in Appendix B). We discuss several of them in somewhat greater detail here in order to better characterize the potential impact of this type of 21Fund investment on Indiana.

SCALE COMPUTING

$2,000,000 Awarded in April 2009
Information Technology

Founded in 2007, Scale Computing is a developer and manufacturer of complete, end-to-end midmarket clustered storage solutions. Based on Scale's Intelligent Clustered Storage™ (ICS) technology, Scale's storage portfolio aims to reduce costs while increasing control, as well as make storage management more convenient for IT administrators. The Starter Cluster line of products provides enterprise-class, truly clustered storage features at a fraction of the price of comparable solutions. IT managers are able to build out storage clusters on a single file system using commodity hardware. One hundred percent channel, Scale's Generation 3.0 storage solution is protocol and density agnostic.

BUSINESS HIGHLIGHTS

- Named one of Forbes' Most Promising Companies in 2009.
- 2010 CRN Storage Superstar
- 2010 ChannelWeb 10 Hot Emerging Vendors
- 2010 Indiana Companies to Watch
- First round of $5MM financing from local venture partners
- Second round of $9MM included participation from Benchmark Capital
- 152 customers and 150 partners to date

KEY MANAGEMENT

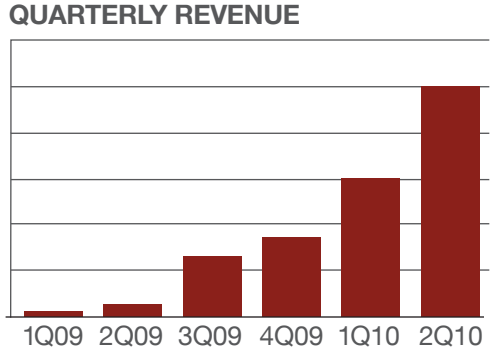
Jeff Ready
Chief Executive Officer, Founder, Board Member

Scott Loughmiller
Chief Product Officer, Founder, Board Member

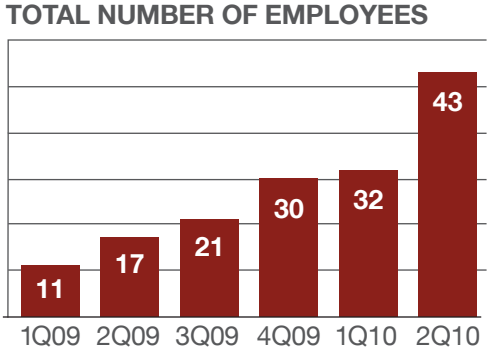
Ehren Maedge
Chief Operating Officer, Founder

Peter Fuller
VP of Marketing and Business Development, Founder

QUARTERLY REVENUE



TOTAL NUMBER OF EMPLOYEES



[4] Reexamination of the behavior of 'high-impact firms' suggests that most definitions of 'gazelle' involve oversimplifications. Z.J. Acs, W. Parsons, and S. Tracy (2008) High-Impact Firms: Gazelles Revisited SBA Office of Advocacy (www.sba.gov/advo/research).

COMPANY PROFILES

COMPENDIUM BLOGWARE

$1,000,000 Awarded in June 2009
Information Technology

Founded in 2007, Compendium Blogware is a demand generation and customer acquisition tool that helps businesses win the search engine battle and convert blog visitors into customers with human interaction and relevant content. The simple facts are: people buy from people, and people are searching online for products, services and information more than ever. Compendium combines search engine optimization with social interaction in a way that produces measurable results.

Currently as a corporate blogging platform that drives search engine optimization (SEO), Compendium will evolve beyond blogging and SEO into social content publishing software that enables companies to generate and distribute content in order to increase customer acquisition and demand generation. The company anticipates new partnerships and integrations with both local and national companies in the areas of analytics, email delivery, templates, and research.

BUSINESS HIGHLIGHTS

- Named by Businessweek as one of America's Most Promising Startups in 2009
- Largest quarterly bookings and revenue in second quarter 2010
- Average contract value increase of 66% (2009 2nd quarter to 2010 2nd quarter)
- 125% year over year bookings growth (2008 to 2009)
- 50% year over year client base growth (2008 to 2009)
- 33% employee growth (2009 to 2010 YTD)

KEY MANAGEMENT

Chris Baggott
Chief Executive Officer, Co-Founder

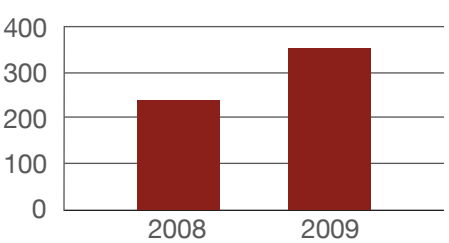
Ali Roach
President, Co-Founder

Scott Blecinski
EVP of Sales

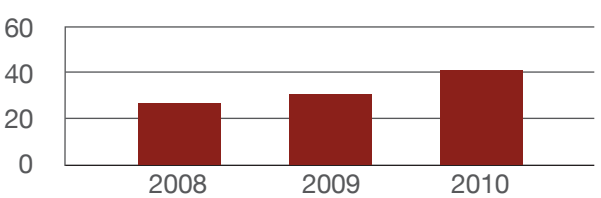
Frank Dale
VP of Operations

COMPENDIUM™

CLIENT BASE



FULL TIME EMPLOYEES



COMPANY PROFILES

WELLFOUNT CORPORATION
$1,000,000 Awarded in March 2010
Healthcare Information Technology

Founded in early 2006, Wellfount provides institutional pharmacy services to nursing facilities, assisted living facilities and other long-term care facilities across the U.S. Institutional pharmacy services, unlike retail pharmacies, require delivery of medications in specialized packaging, 24/7/365 services, consultant pharmacist review of all orders, emergency and stat supplies, delivery direct to each facility and medical records related to charting of medications. Wellfount has created a unique service niche around technology integration in health care. Traditional service includes eleven touches from physician through pharmacy to nursing facility to patient creating significant opportunity for quality issues and lengthy delays in medication administration (quality of care). Through Wellfount's technology-enabled service platform, these eleven touches become five.

Wellfount's integrated loop starts with electronic order entry by a physician or agent of the physician (a nursing facility nurse). Instead of multiple paper-based transcriptions, these electronic orders funnel direct to the nurses bedside charts and the pharmacy information system. Without additional data entry, the pharmacist can clinically review and clear the order. Cleared orders are sent to a medication dispensing unit that is located inside the nursing facility (a facility that may reside anywhere in the country). The nurse now has ready access to the medication instead of waiting for pharmacy delivery. As well, they now have the ability to remove one dose at a time, instead of receiving deliveries of a 30-day supply, a process that historically has generated billions in mediation waste in the long term care system. Wellfount's integrated system increases quality of are as well as removes significant costs from the delivery of medications to nursing facility patients.

KEY MANAGEMENT

Paul Leamon
President, CEO

John Solhan
Chief Financial Officer

Kirk Peterson
EVP of Business Development

Dr. Susan Bennett
EVP of Clinical Quality Assurance

Donna Vignes
Chief Information Officer

wellfount PHARMACY

BUSINESS HIGHLIGHTS

- Revenue growth from $800,000 in 2006 to nearly a $10,000,000 run-rate in 2010
- Grown from 1 facility in May 2006 to 33 facilities in 3 states in 2010
- Opened its doors with 3 employees in 2006 to 61 employees (54 in Indiana) in 2010 with an average salary $45,000
- Facilities serviced increase to over 300 facilities and over 30,000 patients
- 2010 Inc 500 327th fastest growing companies in America
- 2009 Indiana Companies to Watch

COMPANY PROFILES

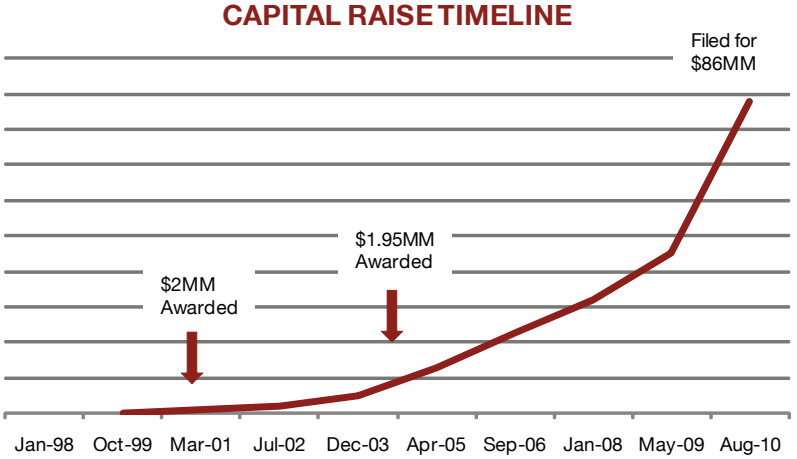
ENDOCYTE

Total of $3,950,000 Awarded in 2001-2004

Life Sciences

Endocyte's technology and therapeutic focus are derived from groundbreaking research conducted in the mid-1980s by Philip Low, PhD, a biochemist at Purdue University, who discovered a previously unknown pathway used by vitamins to enter plant ells. Today, Endocyte is a biopharmaceutical company developing targeted therapies for the treatment of cancer and inflammatory diseases. The company uses its proprietary technology to create novel small molecule drug conjugates, or SMDCs, and companion imaging diagnostics. Its targeted approach is designed to enable the treatment of patients with highly active drugs at greater doses, delivered more frequently, and over longer periods of time than would be possible with the untargeted drug alone. This combination of an SMDC with its companion imaging diagnostic is designed to personalize the treatment of patients by delivering effective therapy, selectively to diseased cells, in the patients most likely to benefit. The company has a growing pipeline of product candidates in various stages of development. 21 Fund grants preceded large private capital inflows.

CAPITAL RAISE TIMELINE



BUSINESS HIGHLIGHTS

- Raise closed to $90 million in total funding
- Filed for IPO on August 17, 2010
- Currently has 54 employees

KEY MANAGEMENT

P. Ron Ellis
President,CEO

Michael A. Sherman
Chief Financial Officer

Phillip S. Low, Ph.D.
Chief Science Officer, Board Member

Chandra D. Lovejoy
Vice President of Regulatory Affairs

Richard A. Messmann, M.D.
Vice President of Medical Affairs

Allen R. Ritter, Ph.D.
Vice President of Manufacturing and Chemistry Manufacturing Control

Iontcho Valhov Ph.D.
Vice President of Discovery Chemistry

Matthew A. Call
Director of Business Development

ENDOCYTE

Executive Summary

Comprehensive Examination of the Performance of the Indiana 21st Century Research and Technology Funds

Prepared by the Center for Business and Economic Research
Ball State University | August 2010

Executive Summary

Michael Hicks, Ph.D.
Srikant Devaraj

Indiana's long term prosperity depends greatly upon the fruitful realization of technological innovation into the markets for production of goods and services. Through three administrations—O'Bannon, Kernan and Daniels—the state has supported technology transfer and commercialization through the careful administration of the 21st Century Research & Technology Fund.

This study reviews this Fund, examining its background, appropriate metrics for evaluating the ongoing efficacy of the Fund's investments and its broad characteristics and ongoing adjustments to investment strategies. We outline the connections between the fund and the recipient industries in Indiana, the connections between the Fund and public policy and the aggregate short term effects of this Fund. We follow this analysis with recommendations for Fund management and policymakers. We note at the outset that this study does not report the long-term Return on Investment (ROI) of this Fund. That is not because it is unimportant, but rather because the Fund is not yet sufficiently mature to make such a calculation. This executive summary reviews the major findings of our study.

During the first decade since the 21st Century Fund's inception over $238 million in funds have been invested in 188 different projects, designed to leverage private sector venture capital, harness the potential of science and technology developed within Indiana, nurture the institutions of technology transfer and harness the power of scientific creativity to better the lives of Hoosiers. Drawing from a broad vision of the General Assembly's legislation beginning in 1999, the Fund has focused investment in those industries targeted broadly by the State of Indiana: advanced manufacturing/engineering, information technology/software development, and life sciences/healthcare. A narrow funding focus is identified as a 'best practice' for state venture capital funds and the concentration of the 21st Century Fund in these sectors is consistent with recommended practices.

Figure 1: *Industry Share of 21st Century Fund Awards*

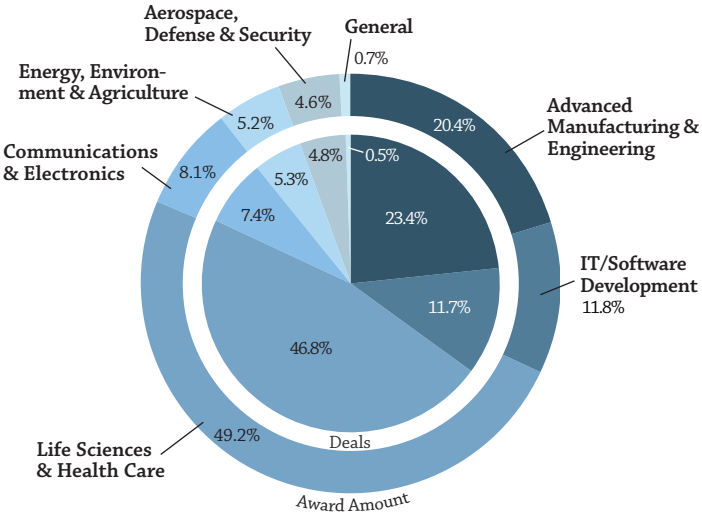
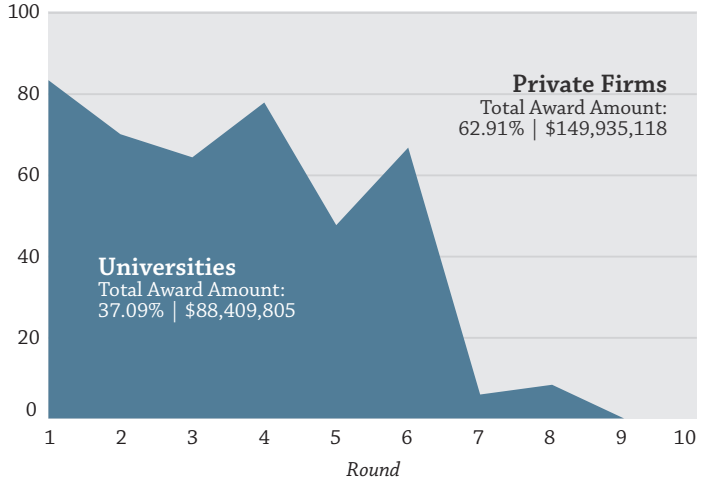


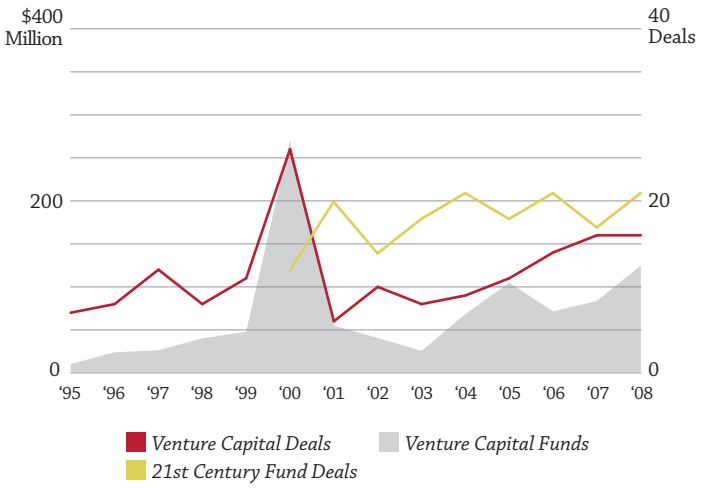
Figure 2: *Percent Share of Awards by Recipient Type*



Definition of Rounds

R	Year	R	Year	R	Year	R	Year	R	Year
1	1999-00	3	2001-02	5	2003-04	7	2005-07	9	2008-09
2	2000-01	4	2002-03	6	2004-05	8	2007-08	10	2009-10

Figure 3: *21st Century Fund Effect on Venture Capital*



Source: State Science and Technology Institute - http://www.ssti.org/vc/indiana/all.php
Primary Source: PricewaterhouseCoopers/National Venture Capital Association Money Tree Report
Data: Thomson Financial

The selection of targeted firms within this industry has been guided by evolving best practices in state venture capital funding efforts. Refined over six funding rounds, Indiana's 21st Century Fund uses a two stage scientific peer review process with an acceptance rate equivalent to the most prestigious scientific journals. In addition, careful scoring of the business essentials prior to Fund investment focuses on assessing the path to effective commercialization of 21st Century Fund investments. The reliance on peer review and entrepreneurial capacity both in the pre- and post- investment period are identified as best practices within state venture capital funds. We find Indiana's 21st Century Fund to be a market leader in these aspects of state venture capital efforts. An example of the evolving focus on recommended investment strategies has been the Fund's shifting concentration on investment from basic science and technology towards efforts that are more developed and hence closer to commercialization.

This shifting prioritization of the Fund's efforts holds many potential benefits for the Fund. First, this should accelerate the Fund ROI by targeting investments that are closer to actual revenue repayments. Second, this shifting effort directly enhances the commercialization ties between the knowledge generation process at universities and private enterprise. Third, the focus on more commercial opportunities serves as an informational filter for private sector venture capital firms. This reduces the cost of assessing the viability of a potential investment and thus makes Hoosier firms more attractive. Finally, this focus side-steps the concern that state venture capital funds might fall trap to SBIR mills that lack the capacity for eventual commercialization. The shift of the Fund's focus was evident in the 2003-2005 timeframe. The most visible evidence that these best practice efforts resulted in a policy adjustment appear in the shifting share of awards from universities to private firms.

Full evaluation of these potential benefits remains a task for a much later study, following more elapsed time. However, at this time some emerging evidence of these benefits has occurred. In particular, the leveraging of private sector venture capital funds and federal funding appears to be linked to the 21st Century Fund. The most obvious of these is growth in Indiana's private venture capital funding, which has blossomed in the most recent years.

Federal R&D funding focus has also shifted towards later stage commercialization through the SBIR/STTR grant streams. Indiana's 21st Century Fund's alignment of this focus has resulted in a leveraging of roughly four out of five Federal commercialization dollars.

The 21st Century Research and Technology Fund is not intended to perform as a traditional economic development tool. Its size relative to the state's economy and the focus on commercialization of R&D make it unable, in the short to medium term, to affect the industrial mix of employment, incomes or establishments. However, we have estimated the Fund's impact on short term job creation in Indiana.

Table 1: *Economic Effects of The 21st Century Fund*

Round	1	2	3	4	5	6	7	Total 1999-2007
Change in Private Non-Farm Employment	463	1,716	1,348	1,582	2,648	1,729	1,646	11,132
Cost per private sector job	30,233	13,559	10,924	15,720	12,202	12,966	15,766	14,152
Real state GDP ($millions)	12	65	54	58	105	70	63	427
Real Disposable Personal Income ($million)	8	43	38	43	77	54	52	315
Population	15	194	314	412	643	718	762	3,058

To estimate these impacts, we evaluated the first seven funding rounds, from 1999-2000 through 2005-07. We limit the analysis to this time frame because more recent years of funding are too recent to fully account for the economic adjustments and therefore cannot be assessed with the model. We focus on key economic variables: total and private sector employment, state Gross Domestic Product, incomes and population changes. This was approached differently than most reported economic development impacts. Here we not only estimated the employment effect of the Fund and leveraged private sector funding ($360 million), we also subtracted both the opportunity cost of the Fund (in terms of lower state spending on other activities) and administrative costs. We did not include the additional value of leveraged Federal R&D spending ($26 million) in this estimate. These assumptions result in a conservative estimate of the Fund's short term impact on Indiana's economy.

We estimate the impacts using the well known REMI, Inc. regional economic model. Our simulation finds that over the first seven rounds, the 21st Century Funds have boosted private sector employment by roughly 11,132 jobs, more than what would have been otherwise. It is important to note that some of this total job creation has been offset by lower state employment during this period, a necessary opportunity cost of the Funds operations. The cost per private sector job is roughly $14,000 per job year in initial funding. Though the Fund was not designed to boost short- to medium-term job creation, this cost is only slightly higher than the most effective job creation incentives found in the economic literature. Total state GDP was boosted by $427 million over this period with real disposable personal income growing by $315 million. Our simulation results also account for population changes resulting from this level of state expenditure and leveraged private venture capital. The model suggests this boosted state population by a little more than 3,000 persons over this period. Compared to direct economic development incentives, this program ranks as moderately effective, a strong achievement given that is not its goal.

The results of this simulation hearken back to much of the formal research on state venture capital funds. The broadest conclusion mentioned above is that while states can effectively operate such funds, they are not likely to make broad contributions to short-term economic development efforts due to their size and scope.

Summary & Broad Recommendations

Our review of Indiana's 21st Century Research and Technology Fund provides the broadest study of a single fund currently available. Drawing from studies of other state venture capital funds and the academic research on the performance of such funds, we come to several conclusions. First, the Fund appears to be operating on best practices with respect to its narrow industry focus and both scientific and business plan peer review. These practices offer considerable benefit in terms of improving commercialization infrastructure in Indiana. The adjustment of the Fund towards more probable commercialization activities between 2003 and 2005 also represents a significant adjustment in line with the best practices in the field for this time period. Best practice models in today's entrepreneurial ecosystem involve venture development organizations leveraging regional resources, angel outreach programs, centers of excellence, local sources of capital and talent. The 21st Century Fund appears to adjust quickly to adjustments to best practices.

Academic research on state venture capital funds finds that a very long horizon is needed to fully evaluate the ROI of funding efforts. Thus, we are unable to speak definitively to the long term performance of the Fund in its commercialization efforts. However, employing conservative assumptions we find the Fund has contributed over 11,000 jobs and $427 million in economic activity to the state.

We make several specific minor recommendations regarding expansion and evaluation of the review process, appropriate performance metrics, design and dissemination of data, the marketing and promotion of the Fund, ongoing connections to economic development and public policy efforts and future research timing and questions.

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About the Center

The Center for Business and Economic Research, formerly the Bureau of Business Research, is an award-winning economic policy and forecasting research center housed within the Miller College of Business. CBER research encompasses health care, public finance, regional economics, transportation, and energy sector studies.

In addition to research, we serve as the forecasting element in the Muncie area—holding five state and federal economic forecasting roundtables.