

Seamless connect between programs, capital, credited with Ohio's high-tech rise

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Tony Giordano has been around the block. He's started successful companies in both Philadelphia and Pittsburgh. He has a good job as assistant dean of research and business development at Louisiana State University's Health Sciences Center in Shreveport.

So why is he moving his new cardiovascular company, TheraVasc, from Louisiana to Cleveland? Quite simply, he says, there's no place like Ohio.

"There's this continuum of capital that I didn't see anywhere else in the country," says Giordano, whose company has received \$100,000 of debt financing from the Great Lakes Innovation and Development Enterprise, \$250,000 in venture capital from Portal Capital and \$250,000 in convertible debt from JumpStart. "(Cleveland) had a phenomenally organized angel network, GCIC (Global Cardiovascular Innovation Center in Cleveland) was sitting out there and focused on cardiovascular opportunities. And the Third Frontier itself, when you started to look at it all, it became very clear. I stopped (looking at) Pennsylvania, Louisiana and Texas, and just focused on Ohio."

Last week, the Ohio General Assembly voted overwhelmingly to place on the May 4 ballot a \$700-million bond issue to extend the life of Ohio's signature economic development effort -- the Ohio Third Frontier -- through 2016. Proponents, who include numerous business groups, say approval is critical to continued creation of high-tech jobs.

While some have disputed how much money should be spent to continue the initiative, few have argued about the success of the Ohio Third Frontier and two other linchpins of the state's economic development efforts: the Ohio Capital Fund, which acts as a "fund of funds" to support tech-related venture capital deals, and the Ohio Technology Investment Tax Credit, which further incents investors to put money into Ohio tech companies.

"What Ohio has done is put together a . . . systematic plan for addressing all the elements, from the university research, to creating start-up companies, to assistance to companies already in the market," says David W. Cheney, director of the Science and Technology Policy Program for SRI International, a nonprofit research group based in Menlo Park, Calif. "They have a more complete system than just about any other state."

In September, SRI -- contracted by the state to study the Third Frontier's economic impact since its inception in 2002 -- presented its findings. The bottom line? Expenditures of \$681 million have generated \$6.6 billion of economic activity -- a 10- to 1 return. Not just that, but the effort created 41,300 jobs and \$2.4 billion in employee wages and benefits.

The Third Frontier and earlier initiatives like the Edison Technology Centers and Edison Incubators have created an environment in which ideas can come to market, entrepreneurs can grow successful businesses and investors can realize a return, say business leaders and investment professionals.

"When an Ohio State University professor has a wonderful idea . . . and hasn't even formed a company yet, he can come to TechColumbus (one of six organizations that administer Third Frontier Entrepreneurial Signature Program funds) and get a \$50,000 grant to do a marketing study as well as look at the intellectual property from a legal patent protection standpoint," says John Huston, who manages Ohio TechAngels, chairs the national Angel Capital Association and serves as vice chairman of the Ohio Venture Capital Authority.

"After that, they can move to the (Ohio Third Frontier) Pre-seed Fund, and the Pre-Seed Fund invests up to \$250,000 in the form of a convertible note, and that \$250,000 will enable them, hopefully to get a working prototype or to vett the science. And then, if (the idea) still shows promise, they can come into the Ohio angel community" -- private investors who typically provide a new company's earliest money. "After we've put in our million dollar round and after

a follow on round of a million or a million and a half, they would have baked out enough risk that they could approach one of the 21 venture capital firms that have participated in the Ohio Capital Fund."

That approach seems to be bearing fruit. The Center for Entrepreneurship at Ohio State found that total pre-seed, seed and venture capital investments in Ohio expanded by nearly 19 percent annually between 2004 and 2008 while total venture capital investment grew by more than 13 percent -- more than double the national VC growth rate. Last month, the Venture Capital Advisory Task Force, a group of northeast Ohio venture community members, reported that \$1 billion in venture capital has been invested in northeast Ohio companies alone during the past five years and that 2009 seed funding for the newest northeast Ohio firms was the highest in four years.

All at a time when a recession has cut national VC and seed funding to the bone.

"Ohio is countering the national trend," says Paul Cohn, vice president and regional director of Fort Washington Capital Partners, which manages the Ohio Capital Fund. "And that's really because of the opportunities provided by the Third Frontier and the capital incentives provided by the Ohio Capital Fund."

Programs like the Innovation Ohio Loan Fund, a Third Frontier program that enables Ohio companies to develop next-generation products -- and commercialization assistance through the Entrepreneurial Signature Program -- are creating opportunities for businesses and investors alike, experts say. And, as sectors like advanced materials, biomedical and advanced and alternative energy grow, the resulting entrepreneurial ecosystem and a more highly-skilled labor force become key attractants.

"We could have stayed in Texas," says Lance Criscuolo, president of Columbus-based Zyvex Performance Materials, which moved to Ohio in 2007 and has received Third Frontier funds. "But our core strength is polymers and polymer chemistry. If you were going to start a semiconductor company, you'd move to San Jose, California. If you want to be in polymers and composites, which is what we do, Ohio is the center of all that."

Many of those with whom *hiVelocity* spoke said that comparisons among states will be made, but that each state must look at what's right for its unique environment.

"The biggest thing (for Ohio) is going to be consistency of investing in this program," says Dan Berglund, president and CEO of the State Science & Technology Institute, a national nonprofit organization that promotes state and regional economic improvement through technology and innovation. "This is a long-term investment for Ohio's long-term future."

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