



White Paper

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An economy that must focus on the future:

Northeast Indiana has experienced an economic malaise for two decades that has become the focus of a great deal of concern within the past several years. The question is not, "Is there a problem?" but rather "What do we do about it?"

FourthWave, LLC, leveraging experience and success to offer new solutions:

Don Willis and Tom Teague collaborated in April 2003 to found FourthWave, LLC, creating a high-technology holding company with operating subsidiaries built on a business model centered on the development and acquisition of innovative software with the potential for global commercialization. In addition, the company provides integrated data interpretation, performance measurement and other analytic consulting services using novel, state-of-the-art, next-generation software management tools. FourthWave is dedicated to becoming a worldwide leader in the management of emergency and non-emergency operations for governments, universities and the health care industry. FourthWave's subsidiaries include **SentryPoints**, tasked with developing and marketing innovative software for the nation's homeland security operations and providing data interpretation and other consulting services to its clients, and **VersiTech**, providing America's colleges and universities with risk analysis and management software to provide safer, better-managed institutions.

FourthWave is committed to making a positive difference in Northeast Indiana through technology, innovation, economic growth and job creation. FourthWave is involved in a number of other economic development ventures aimed at improving the economy and quality of life in northeast Indiana, including an educational foundation, private school start-up, downtown property redevelopment, and broadband project. FourthWave is committed to making a difference at every level, starting with the community in which we live.

Many of the worthy initiatives undertaken on behalf of economic development in our region are similar to those undertaken by every other community in North America. While conventional support for infrastructure, marketing, and education at all levels are critical basics, they are not enough to transform us into a successful economy in the 21st Century. Simply "keeping up with the

Joneses” is inadequate and will relegate us to constantly struggling to remain in third or fourth or fortieth place. **We need a slingshot to become a national and world leader.**

Successful companies identify what they can be the best in the world at, and pursue that mission with focus and zeal. Northeast Indiana needs to identify a similar vision and strategy.

FourthWave believes that we have the opportunity to become a world-class home for IMAGINEERs.

What does this mean? **It means that we have the tools to build the greatest place in the world to innovate, to create new products and services for the rest of the world.** It means that Northeast Indiana provides economic and social support for entrepreneurs to imagine and develop new ideas. It means that we are a collection of diverse, interrelated communities, which provides a wide variety of lifestyle opportunities and an excellent quality of life.

Northeast Indiana’s population includes an abundance of people with world-class technical skills and great ideas. **This untapped reserve of intellectual capital is our region’s most valuable asset.** These people work in our businesses, although their technology and ideas may not be related to their current employer. They may only have an idea but they imagine it spawning a new future.

They are the **IMAGINEERs** we will seek. If they are successful, other **IMAGINEERs** will come here because they will know they will be welcomed into a nurturing and expanding community.

It is our job to develop that nurturing environment. **Northeast Indiana needs a new kind of infrastructure to provide economic and social support for IMAGINEERs who will conceive and develop new ideas.** Without a world-class support system to aid development, the chance of realizing successful commercialization of new technology and ideas is limited. The adVenture Fund provides this infrastructure by combining new with established resources. We will lead the creation and development of a nurturing environment and will facilitate wealth and new business creation that will help Northeast Indiana build a truly world-class economy.

The mission of the adVenture Fund is to catalyze the environment that entrepreneurs need for Northeast Indiana to become a world-class home for IMAGINEERs.

adVenture Fund is an integrated model which includes all levels of business financing:

The adVenture Fund (aF) does not mean that existing financial institutions or systems would be recreated but rather that gaps are filled and more entrepreneurs are developed to allow all institutions to better serve the region.

aF is a new way of looking at the system we use to finance businesses in Northeast Indiana.

There are five primary sources of capital for entrepreneurs:

- ⇒ **Banks** (which requires a high degree of security and offers relatively low cost)
- ⇒ **Mezzanine** (higher cost/higher risk subordinated debt or near equity)
- ⇒ **Equity** (investment in an operating or nearly operating business; this may be from family, friends, or institutional investors depending upon the perceived opportunity for return)
- ⇒ **Start-up or Seed Capital** (which differs from equity in this context because it comes in before the business is operational or perhaps before the business legally exists)
- ⇒ **“Search and Rescue” Funding** (small amounts of money that assist in the development/assessment of new technology which may become a business or part of a business)

Gaps in the current system:

New businesses with high growth potential typically are not candidates for banks or mezzanine financing because of their lack of track record and collateral. Equity capital, which is relatively scarce in Indiana anyway, is not generally attracted to early stage companies because of high risk and the length of time until return might be expected.

Early stage companies require early stage financing. The last two types on the list, seed capital and “search and rescue” (or “pre-seed”) funding, must be made available for an entrepreneurial economy to flourish. This funding may be obtained from angels (individuals who provide early stage financing and mentoring) but Northeast Indiana does not have a particularly well organized angel network that is accessible to entrepreneurs.

Two other important factors should be noted here.

- ⇒ **Entrepreneurial development must accompany financing** in order to actually increase the number of successful businesses. Any successful strategy must ensure that adequate deal flow is developed. Otherwise, money will continue to be attracted outside of Indiana. There are several resources that can provide some assistance, including the Northeast Indiana Innovation Center, programs at Indiana University-Purdue University at Fort Wayne

and other universities, and the newly formed Indiana Venture Center.

- ⇒ **Linkages between entrepreneurs and capital are critical** for a successful result. Not only should today's entrepreneurs be aware of how they might obtain capital, but everyone in the region should have a general sense that there are real opportunities for someone to turn an idea into the American Dream. This is an important part of developing an environment that is supportive of **IMAGINEERS**.

aF provides an integrated solution because it provides not only seed and “search and rescue” financing, but also links entrepreneurs with resources to support the company into the equity stage, provide linkages with mezzanine capital and develop banking relationships. Further discussion of the relationships among the levels of financing is described later in this paper.

IMAGINEER Fund:

aF has created a new fund, the **IMAGINEER** Fund (IF), which helps fill the “Search and Rescue” and “Start-up/Seed” categories, with the following characteristics:

1. Investment will be made in for-profit businesses with new technology that promise rapid growth. Investments will typically be very early stage (seed or pre-seed) in increments of \$5,000 to \$15,000. It is expected that not more than \$50,000 would be invested in a given company. Under certain limited circumstances, investments may be made in later stage companies demonstrating the potential for rapid growth.
2. IF will actively seek to invest in businesses in the 11 counties of Northeast Indiana (Adams, Allen, DeKalb, Huntington, Kosciusko, LaGrange, Noble, Steuben, Wabash, Wells, and Whitley).
3. Investments will be determined by a Technical Investment Committee chaired by Don Willis.
4. Every investment will include the provision for a mentor participating in the management of the portfolio company. In addition, management assistance from resources such as the Innovation Center or IPFW will be sought out as appropriate.
5. ***Investors in IF will have preferred rights (but not be obligated) to participate in follow-on investments in portfolio companies. This is a key characteristic of the fund.*** IF is essentially a point of entry for entrepreneurs into an angel network. It is also a way for angels to commit

to funding on a shared basis in order to introduce them to investment opportunities.

6. IF completed its capital raise on December 31, 2004. A total of 28 investors are members of the fund.
7. Investments will generally be made in exchange for an interest in the issuer that provides for appropriate level of upside benefit to the fund. This may include a percentage of the issuer's sales after certain minimum benchmarks are reached.
8. IF will contract with a FourthWave, LLC, subsidiary to manage the fund. This is not a traditional equity fund, and it is not anticipated that a costly traditional fund manager would add great value. Management functions will be the responsibility of FourthWave's Director of Special Projects and includes marketing and developing deal flow; support for the Technical Investment Committee (provide due diligence to assist TIC in making its investment decisions); coordination of mentoring and management assistance, including regular meetings of portfolio companies and the TIC to ensure progress in meeting agreed-upon goals; and investor relations.
9. Management cost will be partially offset by a fee charged to the fund. The balance of the management costs will be paid by sponsors, grantors and FourthWave, LLC.

Integration:

IF is one part of the adVenture Fund; it is the beginning of the pipeline. It affects the system in the following ways:

- ⇒ **BANKS** can sponsor IF through charitable contributions to offset operational expenses and support economic development. The banks' support will foster business development in the region and participating banks may develop relationships with these new businesses. By providing mentoring, IF will improve the probability for successful growth of portfolio companies, making them even more valuable banking customers both as companies and as individual owners and employees.
- ⇒ **MEZZANINE INSTITUTIONS** such as the Community Development Corporation of Northeast Indiana (or CDC, technically not a mezzanine fund, but which provides subordinated financing for expansions in partnership with area banks), Cambridge Capital, and others, may have additional customers as IF companies grow into businesses with fixed asset or working capital needs which these institutions are well suited to provide. The CDC has expressed strong interest in cross-marketing IF with their more collateral-based products throughout Northeast Indiana.

- ⇒ **EQUITY INVESTORS** are important players in the aF. At the higher end of the equity spectrum, these investors are likely to be Midwestern venture firms which currently have trouble finding deals in Northeast Indiana. aF provides a larger pipeline of prospects which improves both the opportunities for such investment funds and the opportunities for Northeast Indiana companies. The region is well located with respect to larger Midwestern cities which have venture funds; we simply need to better develop opportunities for such investment. At the smaller end of the equity spectrum, aF/IF provides a vehicle for individual angels to work together to provide additional funds for business growth as well as helping angels evaluate potential deals. Don Willis' technical expertise is a valuable asset for angels who typically do not have the resources to analyze technology outside of their existing knowledge base. In the middle of the spectrum, co-investment between IF angels and venture firms provides leverage for both groups of investors.
- ⇒ **START-UP/SEED CAPITAL** is provided by IF. Equally important is the mentoring that helps entrepreneurs create successful businesses. By identifying talent and technological innovations and driving their development in logical steps, IF gives its investors the chance to see good returns – both financially and for the region as a whole.
- ⇒ **SEARCH AND RESCUE** is enabled by IF. It is also the way that Northeast Indiana can distinguish itself from our competitors – we are the place that not only looks in the basement for ideas, but we help make those ideas a reality.

Northeast Indiana is at a historic moment.

We look at challenges all around us. Our question is, **can we see the opportunities inherent those challenges and capitalize upon them?** We can realize enormous economic and social benefit from the untapped intellectual capital in Northeast Indiana. **Are we willing to make the investment to reap these rewards?**

Our region's early 20th Century leaders committed their resources toward our community's future by seeing the power in manufacturing – a new and different model from agriculture one hundred years ago. It was that commitment toward mastering change and benefiting from it that created the powerful economic engine which drove our region for decades. **Can we make that commitment in the 21st Century?**