

Good morning. My name is Brian Murphy. I am a General Partner at NewSpring Capital, a private equity firm that manages three funds. The healthcare venture fund has the Commonwealth of Pennsylvania as a limited partner, through the Tobacco Settlement Fund. The Commonwealth Financing authority has invested in our mezzanine fund and the State Employees' Retirement System has invested in our growth and expansion venture fund.

I'd like to preface and commence my remarks with an overview of the venture capital industry. A venture capital fund is a pool of capital organized as a limited partnership. Along with management, venture capitalists provide finance for new and rapidly growing companies, and assist in development of new products or services. We add value to company through active participation in growing the company. We act as mentors and provide strategic and management help as needed. "VCs are entrepreneurs first and financiers second". We take higher risks with expectation of higher rewards. Thus, venture capital is a non-corollary asset class to the market. Over a 10-year period, this asset class consistently outperforms benchmarks, such as the S&P 500 index. All this requires substantial capital and a long-term orientation.

In general, a VC fund will evaluate several opportunities and invest in a few. No more than 10% of a fund is invested in any one deal. Once capital is committed to a deal, some capital is provided up-front, with some reserved for follow-on funding. A VC may invest at several different stages of a company. The investment is done only after extensive due diligence. The venture investment is neither short-term nor a liquid investment. The opportunity for a high rate of return is usually after 5-7 years of the initial investment. This rate of return typically follows the industry defined J-curve.

The history of the IT industry is a testament to venture funding. In the '70s most IT firms were venture-backed start-ups. These firms created the backbone of the IT industry as we know it. Venture funding also created the IT giants that are household names today – Intel, Microsoft, Apple, Cisco.

The energy sector is gearing up to mimic the IT industry. This sector is today where IT was in the '70s. According to Mark Heeson, President National Venture Capital Association, 7% of venture investing in 2007 is in the energy sector. Venture investments in energy have increased nationally over the past three years. The average investment per deal went up from \$6M in 2005 to about \$10M YTD2007. These numbers will give you an idea of the investment amounts that are necessary to fund a growing company, particularly those that are R&D intensive, such as the alternate energy industry.

Currently, alternate energy companies are being aggressively targeted to relocate to other states, by promise of VC dollars, *e.g.* California and New Mexico. Ohio also has started a Cleantech fund. In order to create, attract and retain such firms, Pennsylvania needs to invest in VC funds, in addition to other measures such as tax credits and grant funding. Not only do local VCs keep companies within the Commonwealth, we add to the state's investment through syndications.

As a case study, I'd like to bring your attention to the funds provided through TSIB to NewSpring's healthcare venture fund. We have invested in seven Pennsylvania companies. The amount invested from our fund, which includes TSIB funding, is \$10.3M with total syndicated

capital of \$148M. The revenues in 2006 generated by these companies were \$148M. The number of employees has increased from 138 in 2005 to almost 800 in 2007.

We have reviewed the Special Session Senate Bill 1. We support the Ben Franklins; we support the commercialization of alternate energy technology. As you can see from the data, 40% of \$12.5M is very small relative to the amount of venture money required to back growing companies. In addition, \$1.5M is a very small percent of the average deal size in the energy sector. We would like you to be mindful that if your capital is too modest and too regulated, it will discourage institutional investors from investing in this sector. We encourage you to be aggressive if you wish the state to differentiate itself as a place for companies to reside and VCs to have more deal flow. Finally, it is important that the state recognize the need to make this fund “evergreen” by putting the returns on investments back into the fund, supporting the future growth of the industry within the Commonwealth of Pennsylvania.