

# RISKY BUSINESS

## VENTURE CAPITAL TAX CREDIT BENEFITS INVESTORS, COMPANIES

By Symone Salisbury

No good deed goes unpunished, according to a popular adage. Investors employing Indiana's venture capital tax credit, however, are rewarded for their efforts.

Corporate investments may be categorized less as good deeds than calculated moves. Camaraderie, however, among the business community, often plays a role in the launch of companies with uncertain futures.

Enterprises (individuals or groups) with Indiana tax liability can receive a 20% tax credit for investments in eligible companies. Most eligible recipients of the venture capital tax credit are small and technology oriented.

An Indiana Chamber report, the *Indiana Venture Capital Study*, was instrumental in the tax credit's passage in 2002 by the Indiana General Assembly. It became effective on January 1, 2004.

Several elements of the initiative have been enhanced by the Indiana Economic Development Corporation (IEDC).

"The approval process for certifying both the eligible companies and investors has sped up dramatically," states Mark Lawrance, Indiana Chamber vice president of corporate development. "We've also increased the cap on the total tax credits in any year from \$10 million to \$12.5 million."

### Bare bones method

Herb Schwartz, president and CEO of Schwartz Biomedical, LLC, credits his industry with attracting investors.

"We don't do traditional orthopedics," Schwartz describes. "What we do is develop regeneration technologies. Rather than replace the tissue, we try to get it to heal or regenerate. The area we work in, we're fortunate that it's not only high-tech products, which is interesting, but what we do benefits people."

Schwartz Biomedical and its two subsidiaries (BioDuct, LLC and BioPoly) have earned IEDC funding. BioDuct was founded in 2004, supported in part by venture capital tax credit money. In addition, a 21st Century Research and Technology Fund grant (which fosters business and job creation in the state) helped Schwartz Biomedical establish BioPoly that same year.

All three companies occupy office and lab space at the Northeast Indiana Innovation Center, a certified technology park located in Fort Wayne.



“The state of Indiana has really helped our company in terms of the funding and establishing credibility,” Schwartz praises. “(It’s) believing in us and our technologies, that they’re going to be commercialized and be some viable technologies for Indiana.”

### Tripling the odds

Twilight Venture Partners, LLC is an Indianapolis life sciences venture capital firm. Many individuals at the organization have collaborated in the field for more than 35 years.

“We only invest in areas we understand,” comments Ron Henriksen, chief investment officer. “We stick to our knitting, as the cliché goes. I’ve been around since biotechnology was a new field. We’re very hands-on.”

Henriksen’s background includes high-profile positions at Eli Lilly and the Indiana University Advanced Research & Technology Institute (ARTI).

He also oversees operations at Semafore Pharmaceuticals Inc. (focuses on molecular drug development and discovery) and EndGenitor Technologies, Inc. (Indiana’s first adult stem cell company and a partnership with the Indiana University Emerging Technologies Center). Each has benefited from the venture capital tax credit.

Henriksen cites several factors in the tax credit’s improvements over the years.

“One thing, it was fairly new,” he offers. “But another thing is I don’t think they (the previous administration) pushed it very hard. The current administration really talks about it as a great advantage for Indiana.”

### Deal maker

Both Schwartz and Henriksen refer to the venture capital tax credit as “icing on the cake” that can shape a business’ investment decisions.

“Investors have to make sure they’re comfortable with the management and business model,” Henriksen notes. “That’s got to be number one. But once they convince themselves that’s

something they want to invest in, the tax credit makes it much better because the numbers come together. You’re getting a 20% tax credit rebate.”

“For every \$1 they put in, they get an immediate 20% return,” Schwartz points out. “They’re only risking 80% of their principle. It virtually increases our value by 20%.”

### Promise vs. presence

Nearly three years after its implementation, the venture capital tax credit has facilitated the creation of numerous companies. Aggressively promoting the program will be vital to its success.

“It’s increasing each year and we’re seeing promising Indiana start-up companies finding much-needed additional capital because of the tax credit for investors,” Lawrance states.

Henriksen observes, “I’m not aware of any other states that have anything like this. It’s been fairly well publicized for people who are following this kind of thing, but people who normally don’t think of these kind of investments may not pick up on that until they get an opportunity.”

Henriksen contends that it was only a matter of time before the state pioneered such a program.

“We’ve waited a long time for this to happen in Indiana,” he reveals. “We knew the technology was here, we knew the people were here. We just had to get the right frame of reference for it. I just hope the state of Indiana can find any way possible to continue this program and even expand it once demand calls for it.”

#### INFORMATION LINK

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**Herb Schwartz (left) has started several technology companies with state funding. Ron Henriksen and his colleagues are leaders in the biotechnology field.**