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Venture cap isn't what it used to be ...

It's much better, thanks
to some early pioneers

PETER KEY
STAFF WRITER

In the beginning, there was ... Well, if you're talking about the beginning of the area's venture-capital community, there wasn't much.

Stephen M. Goodman and some of his University of Pennsylvania law school classmates had set up a practice in 1969 representing the types of companies that now get venture capital, but there was no venture capital to get.

Howard D. Ross began working as an accountant at the Philadelphia office of Arthur Andersen in 1973 during a decade that, he said, "saw the lowest points of the IPO world" with only 15 initial public offerings each in 1976 and in 1977.

Today, the area's venture-capital community, and, as a result, Goodman and Ross, are positioned very differently.

Fifty-five venture capital firms with \$13.9 billion under management now call the region home, according to the Greater Philadelphia Venture Group.

Goodman is co-chairman of Morgan Lewis & Bockius' global technology practice and coordinates all aspects of the Philadelphia law firm's representation of entrepreneurial technology and life sciences companies.

Ross is a founding partner in LLR Partners, a Philadelphia-based private-equity fund that has more than \$600 million under management. He thinks the events that jump-started the venture-capital industry, both nationally and locally, occurred in late 1980.

In October of that year, Genentech Inc. went public. Then, two months later, Apple Computer Inc. went public.

"That event, the birth of the personal computer and the birth of biotech, as symbolized by those two companies, started an enormous surge of interest in venture capital around the nation," Ross said.

In Philadelphia, people looked around and noticed no one was providing any — except TDH Capital.

In the late 1970s, J.B. Doherty was working for K.S. Sweet Associates, a Radnor-based real-estate advisory and development firm. It made some venture-capital-type investments with bank-run small business investment companies, and they proved successful.

"We concluded we ought to have a pool of capital" to make those types of investments, Doherty said.

Just as the principals at K.S. Sweet reached that conclusion, they ran into members of the Buck family, who a few years later would become silent partners in the Philadelphia Phillies. The Buck family was also interested in an investment pool and they formed TDH Capital. A license as a small business invest-



CURT HUDSON

Robert E. Brown Jr. of Meridian Venture Partners helped to organize one of the area's earliest venture capital funds in the early 1980s.

ment company gave TDH the ability to borrow money from the federal government to invest with its own money.

"We were seeing deals, we just didn't have a pool of capital. And the beauty of the SBIC [designation] was you could leverage it. For a modest amount of money, theoretically, you could have a larger pool of capital," Doherty said. "As it turned out, our deals turned over so fast that we never really borrowed."

Although TDH was successful and was providing venture capital to businesses that needed it, it was still basically a family investment business. The people who were getting excited by the success of Genentech and Apple thought the region needed more.

To prove that point, in 1981, Robert E. Middlestadt with the University of Pennsylvania's Wharton Innovation Center, and Thomas A. Penn, now a partner with Meridian Venture Partners in Radnor, wrote a report called, "Venture Capital (or Lack Thereof) in the Philadelphia Area." It laid out the economic case for venture capital and why the region could and should support a venture-capital community.

At about the same time, a group of about half-a-dozen people began meeting to try to form a venture capital fund. Robert E. Brown Jr., who now works alongside Penn at Meridian Venture Partners, wrote the business plan for one.

"It was literally at the level of, 'There would be a limited partnership. ...'" Brown said. "This was like venture capital 101."

VENTURE: Local investor community born in the 1980s

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Its simplicity didn't matter.

Raymond R. Rafferty Jr., a lawyer who was in the group trying to organize a venture fund, teamed up with Paul Anderson of Miller, Anderson & Sherrard, a Philadelphia money-management firm that was bought by Morgan Stanley in 1996. The two of them made the rounds of the big corporations based in the area at the time, and, Brown said, got each to commit \$1 million or \$2 million to the fund.

With the money in place, the organizers of the fund recruited Walter M. Aikman to come down from Boston and manage it. He hired Charles A. "Chief" Burton, who had been making venture-type investments for the Philadelphia-based Insurance Co. of North America, and the new fund, Century IV Partners, was off and running.

The fund raised slightly more than \$20 million. By then, TDH had raised its second fund, this time with investments from institutions. Doherty remembered it being \$24 million.

"I think that was probably good sized for then," he said.

Also by then, SEI Investments Inc., an Oaks-based provider of technology and services to money managers, had held

its IPO. That event, in March 1981, showed Arthur Andersen's Ross what venture-backed companies could turn into, and he began trying to show others.

Two years later he and Michael Coleman, then a partner at the law firm Pepper Hamilton, and Bernie Tannenbaum, who directed the Wharton Small Business Development Center, held a five-hour seminar called "High Technology Goes Public" on the Penn campus.

It was standing-room only, got a lot of media attention, and helped Ross' practice take off. Eventually, he wound up representing 250 companies and having 100 people working for him at Arthur Andersen, which he left in the late 1990s to form LLR Partners.

The success of the seminar convinced Ross to have others. He also began talking to local law firms about the wisdom of letting their attorneys represent young, entrepreneurial companies even if they didn't make a lot of money from them at first.

One he talked to was Wolf Block Schorr and Solis-Cohen, which Goodman had joined in 1983.

"I had to sort of state the case on why Steve should spend more time working for growth companies," Ross said. "They all looked at me like I was speaking an-

other language."

Eventually, Goodman decided he could better represent the types of companies he loved at a different law firm, and in 1994 he joined Morgan Lewis, where he is today.

Among the things Goodman remembers from the early days is the 1983 formation of what is now the Greater Philadelphia Venture Group.

"Suddenly there was a community," Goodman said. "We started out with two tables or so coming to lunch. In five or 10 years, it was a couple hundred people coming to lunch and now it's 500 people coming to lunch."

That's for the group's annual awards banquet. One of the awards it gives out is named after Rafferty and another is named after Aikman.

Both men have died, but the venture community they helped create lives on. And although it's dwarfed by its counterparts in Silicon Valley and Boston, its size still amazes some of the people who were around at its inception.

"I could not have imagined what it's become," said Meridian Venture's Brown. "I could not have imagined that we'd have the sums of money that we now have under management."