Alan K. Ruvelson

Interviewed by David Hsu
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DH: Good morning. This is David Hsu from the Massachusetts Institute of Technology. I'm here at the offices of Alan Ruvelson. Today is Monday, July 12, 1999. Mr. Ruvelson, thanks for agreeing to talk with me.

AR: I'm happy to do that.

DH: I just want to give you a brief introduction of the territory I'd like to cover. I'll just start off with some preliminaries as to the Small Business Investment Company program and to your company, First Midwest. We'll move on to some questions about your investments and portfolio companies, and then on to some issues of labor market and capital market access. And finally we'll conclude with the internal organization of your company.

Can you give me a brief introduction to the SBIC program with respect to two things: first, the leveraging that the program gave to the early venture capitalists, and, secondly, the tax advantages that were associated with this particular program. Then maybe you could also discuss your early involvement with the SBIC.

AR: In my case, it was somewhat unique.

DH: Could you discuss that?

AR: Yes. [Dwight D.] Eisenhower was elected, as you may know or not know, in 1952, and I was rather active in the Eisenhower campaign, very enthused about him. I had never, ever thought about being in any branch or form of government. In fact, I had promised my father that I would never engage in - I could do all the volunteer work and cause work, but never political office, and I've always maintained that.

However, as a result of my activity, I suppose it was the reason that when the SBA [Small Business Administration] program, which is a program that came in during the Eisenhower administration, I think it was conceived about 1953 or '54, and implemented, and I was asked to serve as a regional field advisor in March of '55. I was pro bono, and I enjoyed the work. This was before the SBIC program. I ended up being chair of the regional advisory group of field advisors, non-salaried people, and in those days the region was much larger than the present Minnesota office. It consisted of Minnesota, North and South Dakota, western-most Wisconsin, and upper peninsula of Michigan and the eastern half of the state of Montana … pretty much an overlap of the Federal Reserve District.

In the course of my work there in the SBA program and the meetings, I became aware of the legislation that was being considered and contemplated in Congress, which resulted in the
Investment Act of 1958,... it passed, I think, sometime in the month of August. Just as it happened, Wendell Barnes, who had been selected to become the first head of SBA was scheduled to come here to Minneapolis, and we had a large meeting under the sponsorship of the Minneapolis Chamber of Commerce.

By coincidence, I chaired that meeting because of my work with the SBA on a voluntary basis. Harry Piper, now deceased, was one of the panelists, a banker from Winona, Ralph Feldstad, a history professor at Carleton College, and Truman Penney, who became the head of the investment activities of the Minneapolis SBA office. These were the people that participated, and I chaired the meeting. We had Wendell Barnes at the public meeting at the then-Radisson Hotel, and it was well attended, a very large meeting. Senator [Hubert] Humphrey and Senator [Ed] Thye were there, because it had bipartisan sponsorship.

We pontificated about a lot of things we didn't know too much about... what we hoped would be. I remember we had a private dinner at the Minneapolis Club sponsored by the Northwestern Bank, later the Norwest Bank, and now the Wells Fargo, and talked about what we hoped would develop.

I personally started to get busy to get a little group assembled, to see if we couldn't get licensed. Well, there were no procedures and no patterns, and we had a shell corporation going by December of 1958, and raised about $315,000 in capital, and proceeded to file a licensing application just before year end, in 1958. Well, it took them until 1959, in March - the date was the nineteenth - to license Citizens Southern of Atlanta and ourselves. (Citizens Southern’s SBIC discontinued many years ago, and then, of course, Citizens Southern Bank was absorbed into another banking group in the Southeast.)

But we went along and we made our application, and among other things, we picked the March 31st year end, which turned out to be the fiscal year that was made and adopted for all SBICs. We had the luxury of - it was not a publicly held deal. We had a limited number of investors (around twenty). I secured my investment by mortgaging my house. (I had a wife who, in my younger years developed polio, and I left my diamond importing business.) She was a little bit ticked off at me, but I took my chance...I didn't know what was going to happen.

So anyhow, we went along and we saw we couldn't navigate on the little pool, although we were the first, and nobody knew what we were doing... Let me say probably we didn't know what we were doing, because while today venture capital and entrepreneurship and all of that, and, you know, you have your MIT forums, and you have everybody. We had the privilege and luxury and the difficulty of - in practically every instance - making the first move. Whether it was the venture deal in those days, we were not permitted to get warrants; we could only get options. The SBA also didn't know what it was doing, so they had every kind of a stricture.

Then over and above that, when we filed to become a public company in 1960, we became subject to the Investment Act of 1940 (which has since been changed) once we got in. . . . It was just a straightjacket. We couldn't move and it was unreasonable. We couldn't give our people any incentive payments. . . . you couldn't do this and you couldn't do that. You couldn't even make an investment as a protection to save the company without SEC permission, but it would take so
long for them to make a decision that the company could go broke in the meantime. And SBA said some things and SBIC said some things . . . “go” and “whoa” and all that; it was just a nightmare.

Then you asked about the leveraging -the leveraging potential, but we had to wait -first they had to figure out what would be an appropriate and eligible way of funding, and it was very restricted. Then they put so many limitations on the money, the events . . . for example, if we wanted to prepay, it was just a tortuous project.

In this connection I'm going to ask you to save yourself and me. You go to Saunders Miller, who is the senior policy advisor of the SBA in the investment division, and he came to us after working with what was then J.M. Dain, still here, but it's got some additional names on there. And Saunders could see how restrictive everything was from the viewpoint of what we could and couldn't do, and it's because of Saunders - and I mention him in particular - that they've had some wonderful changes in the Small Business Investment Act, with all of these investments and all of the new leveraging and all of this and all of that, took away these disincentives, which were just crazy.

Well, despite all the problems, in June of 1959 we made the first investment under the Small Business Investment Act. It was made in a company called Pride Seed Corn of Glenhaven, Wisconsin. That was the very first SBIC investment in America. I can say maybe it was just coincidence or was fortuitous, it turned out to be a winner, despite some of the problems.

Then I think there is something that you can go back -I testified at the early congressional hearings for the SBIC program, and you're really getting into it. I don't know if you are.

DH: I have a copy of that here of your testimony.

AR: I testified on a number of occasions, you know, and gave the testimony. Then there's something that I'll reference you for. I spoke to the Bureau of National Affairs, which is a prestigious group of government officials and the various - Internal Revenue, this and that. And they had me speaking there. We were licensed in '59. I think they had me there in their November meeting in 1959. There must be a transcript someplace that you can get from the BNA, which is still in existence. It's very much for real. They came from IRS and all the other regulatory and governmental agencies.

I pontificated there, you know, and I told them how we had made this first investment in the hybrid seed corn company, and we had several others that we had made. Pride Seed Corn was a substantial winner, by our terms. (I think we tripled our money within a five-year period or less) We didn’t know how high was up. But you must remember that venture capital had its genesis in America, and I have an overview. Maybe some of it's in there. I think it's substantiated. General Doriot came to America after World War II, and he was a great visionary. I had no contact with him as a student. However, I did listen to him when he delivered an address, and he was well up in years. But he was a substantial visionary. You're aware of this, I'm sure.

DH: Yes.
AR: And I'm happy to say that years later, *Inc.* magazine had an article about “Vulture Capital”. Are you aware of it?

DH: Yes.

AR: And if you'll look at the end of it, you'll find General George Doriot, Ben Rosen, and Alan Ruvelson were referred to as counter to the idea of vulture capitalism. If you have any trouble locating it - have you seen that?

DH: Yes, I'm aware of the article.

AR: Okay. You're really into it, then. And that with Sam Hayes, in giving an overview. But we had a - maybe I'm wandering too much for you. Am I?

DH: It's okay. I'll amend the questions later.

AR: All right. Now, bear in mind that NASBIC -

DH: Which is the National Association for Small Business Investment Companies.

AR: Charles Noone, who was an attorney in Washington, wonderful, wonderful man, and when I was going to speak to the BNA in 1959, he arranged to have Senator Thye's secretary pick me up at Dulles [Airport], and said he wanted to talk to me. We didn't have a NASBIC. He got together with me and he told me that they were setting up this organization and that they had a banker from Virginia, Tom Grant, who was a titular president, but they would like me to become active in the thing. So this was in '59.

By the time it was '60, I had been a director and then I was elected to serve in 1960 through '61. As you probably gathered, I'm a Republican. I was nominated for NASBIC president sometime during '59. In the election was in November of '60. It turned out that [John F.] Kennedy was elected President. So I told the fellows, before they went to vote, I said, "You know, I'm no child and all bets are off. You know, you've got a Democratic president." They said, "Just keep your politics to yourself and we want you to be the president." So I became the first elected president of NASBIC.

When Kennedy came in and he appointed Phil David Fine, to succeed Wendell Barnes. I first met him in the Spring of '61 in San Francisco. He knew I was Republican, but we got along pretty well. We understood each other. Kennedy's politicking was - he had a different kind of a team.

So anyway, we went ahead. Then one reason I want to refresh - get you to contact Don Christianson, somebody had a very wise idea of uniting early SBICs, which now included Greater Washington, California Capital (Frank Chambers) and Joe Powell of Boston Capital, and they wanted to put us all together in one deal and have a New York Stock Exchange listing. Great idea. But unfortunately, or fortunately, I don't know, all SBICs and most venture capitalists are very entrepreneurial and have a strong dosage of “NIH.” You know “NIH”?
DH: Not invented here.

AR: Yes. Everybody has a good ego or you're not a venture capitalist.

DH: Sure.

AR: I don't know how good it is. So we didn't. But Don and I, he and ourselves, got involved … we had a bad deal in Detroit, called Universal Warren. He had “Singing River” in Pascagoula, Mississippi, and we each lost our rear end on these deals. But anyhow, Don is still around, and he has a great guy at SBA, in Saunders.

Well, we went along and everybody and their brother wanted to get an SBIC license. Of course, you know, they attracted some good people and they attracted some people that weren't so very good. And we had to discipline some of them.

DH: These were the licensees?

AR: That's correct.

DH: How did you discipline them?

AR: I was in on a couple of panels, and the real scoundrels, of course - coincidentally and simultaneously I was a vice chair of American Arbitration in this region and I'm not a lawyer. I served on the committee for disciplining attorneys in Minnesota, which they call Professional Responsibility. I was one of those that had served and we met in chambers … I can remember one session in New York. But we really didn't have any punitive deal, but we could get the word out, which is what we did. We had some real bad actors, and, of course, with the SBA, the way they did it was they took away their licenses. But it was just like any government funding program or lending; you get the best and sometimes you get the worst.

DH: Can you tell me briefly how the SBIC program differs from regular bank loans? What did the government have in mind when they were thinking about potential capital market imperfections to financing entrepreneurs?

AR: What they had in mind was based largely on a study that was done with the assistance, and maybe sponsorship, of the Federal Reserve, that there was a shortage of capital for growth. This 1958 prologue to the act, they had this lack of capital - and in those days, you didn't see the active regional markets and IPOs. You didn't see the private placements. They hadn't made all these instant millionaires that had become venture capitalists. And so the ability to fund an emerging company was really a tough case.

So there was an Equity Gap. That's the phrase. I'm going to get back to the - they referred to it as an Equity Gap, which was correct. And other than a few very deep pockets, like the Rosenwalds of Sears-Roebuck or the Vanderbilts, what we consider venture capital investment today was the playing field of only a few very rich, rich people, and that was it. But if somebody, for example,
in Minneapolis or St. Paul wanted to fund an emerging company, nobody could get there. There were the Bessemers, etc. You know, you can go down the line. I'm sure you've probably seen the history of it.

**DH:** So this movement from private individuals funding entrepreneurs to organized venture capital or addressing this equity gap was the primarily motivation for government involvement?

**AR:** Yes.

**DH:** You've mentioned Georges Doriot and his influence early on in 1946.

**AR:** Yes.

**DH:** Yes. How were you influenced personally by Doriot in your operations at First Midwest?

**AR:** Not at all at the outset, because despite my father begging me to get a law degree at Harvard - I graduated at twenty and I was top in my class. I got a Beta Gamma Sigma as a junior, which was the equivalent of Phi Beta Kappa - and I was twenty years when I graduated, and I wanted to get married and my father didn't want me to. He wanted me to go to Harvard and get a law degree. Well, I didn't. I went in the diamond business.

In those days -let me put it to you quite frankly -not only was there an equity gap, but for you as an Oriental or me as a Jew or anyone in a minority group that wasn't a white Anglo-Saxon Protestant, you didn't have a prayer. When I graduated, one of the major corporations in America, they had one Jewish vice president. He came over to the University of Minnesota, and they wanted me to get a position. He said, "I can't have another Jew in the organization." It was like the house Chinese or the Black or the house Jew. In fact, most of them didn't have any - and the same was true with law firms.

So I came back and I went in my dad's diamond business -he was fairly well off, but he ran a one-man show, I got into outside activities. Then my wife developed polio at twenty-five, and so I couldn't do much there. So I got involved with school things, helping good schools here at St. Paul, and then also got into better government activities which I had nothing to do but - so I got into it. That's how I got into the SBIC which, as I told you, was through the back door. And I have yet to take one nickel of any government contract or a government appointment.

I didn't know Doriot until I heard him at a meeting. Another one of those early ventures was Royal Little, who impressed me, of Textron. Did you ever hear of that name?

**DH:** I've heard of Textron.

**AR:** Royal D. Little was uncle of Arthur Little. He was a great Democratic politician and a great conglomerator. Narragansett Capital came out of Arthur Little and all that. If you see any of these people - have you talked to many venture capitalists?

**DH:** A few, yes.
AR: Have you talked to people from Charles River?

DH: Yes.

AR: Who did you talk to there, Jack Nices? Richard Burns?

DH: One of the founders. I forget his name.

AR: Pat Liles, a Harvard man, he's deceased. We did some deals with him.

To go back with it, I went into my dad's business and did work on the outside. I do feel, however -- one thing that always stuck in my mind about Doriot was that Doriot himself was a great idealist. He was the antithesis of “vulture capitalism.” Now, I can't say that about Royal Little. He was a real wheeler-dealer and a conglomerator, but I was impressed by him.

Of course, when we started out, let me just tell you that these forums put on by Sam Hayes - and I hope you'll visit with him - nobody knew anything about what was going on. As a matter of fact, many years later, I think it was in the very late Sixties or the very early Seventies through one of my directors I met Don Jondall, Vice President of Investments at Northwestern National Life, now Reliastar. We did a couple of deals with them where they were the senior noteholder.

He asked me to speak to a seminar at Rockford College at Rockford, Illinois, held annually by the major life insurance companies - Prudential, all of the big ones - were the one that I addressed at that time. That was the very first presentation they had ever had on investing in venture capital, believe it or not. With the billions that they've since poured into it -- this was the very first. They had two one-week sessions, and I was asked to address that session. So I went to Rockford. I had a director, Leonard Dayton of the Dayton family here, and he was a great patron for the Rockford College, so he insisted that I go and I went to that one.

But as far as people who have influenced me, I'd say Royal Little impressed me, but his was more shrewdness. Doriot impressed me because of his intense feeling that people ought to behave themselves when they were investing, and that you ought to respect the dignity of the people that were entrepreneurs. And if you go back to this *Inc.* magazine, which I hope you can, and read that article through -- they had a big thing on vulture capital on the front of it.

DH: Yes.

AR: I was happy and proud to be somehow associated with Rosen, whom I never met. So that's it.

DH: Moving on a little bit about the formation of First Midwest Capital Corporation, can you tell me a little bit about the formation of the company and specifically why you took the company public fifteen months after founding it?

AR: Okay. Well, before I did anything, I had an attorney, Richard A. Moore, who was a partner
of Warren Burger, later Chief Justice [of the U.S. Supreme Court]. Dick Moore and I were friends since we were seven years old, and we did everything within my family business. I sent him this concept of SBA SBIC program, and I asked him to look at it, and I also sent it to our accountant, Bill Wolkoff, who later sold out to Coopers and Lybrand. He at one time had been a revenue man and he was pretty sound.

I asked what each one of them thought of the thing, and each one came back and said, "It sounds like a good idea." I suppose they figured there would be more work for them. I said, "Do you think it's so good that you'd put your own money in?" Yes, they thought it would be. Well, today I would never have my attorney ever sit on a board, but in those days I was a little more naive. Of course, I later learned that when an accountant puts money in a deal, he can't any longer give opinions, you know, for a public company. I learned the hard way. But they both came back, so they were part of the original deal, and I had a few friends (Republicans) that had pieces of it.

AR: We got our money together. In those days, bear in mind, in 1959, $315,000 was much more significant than it is today. I can't tell you exactly, but maybe in terms of the investment community and all the rest, it was a reasonable number. But we soon found out it wasn't so big. So by 1960 we went public, and we then had to get another accounting firm because the other one couldn't certify it. We kept the same attorney. We went with Touche Ross and Paine Webber. No, wait a minute. Craig Hallum. Craig Hallum, which was in existence. And then Paine Webber became a co-underwriter.

But then I had gone down to Washington to testify, and while I was there, the head of the Minneapolis office of Paine Webber, James Devant, called me in Washington. He said, "Buddy, a million dollars isn't going to be nearly enough." He said, "Meet me in New York. I'm going to be there on Monday, and I'll get you 25 million."

Well, I had not been exposed to high finance, and I said, "Jim, I don't know what I would do with it. I don't have plans to be able to digest it, and I don't like to take other people's money."

He said, "Remember one thing. You will never again see a market in your time that will be as easy." That was the 1961 market, when it was taking off. Well, he was right, and I didn't go there. We just stuck at about a million dollars, and that's what we had until 1965.

However, I made a terrible mistake, because the minute we went public, we became subject to the Investment Act of 1940, which was perfected by Joseph Kennedy after he made all his money. It was terrible. Nobody knew how to handle an Investment Act company. Until the recent changes in the last six or eight years, it's been almost impossible. The people like California Capital got out of it and Narragansett Capital. Everybody had trouble.

DH: Can you tell me specifically what restrictions or constraints this particular act placed on you that made operating so difficult?

AR: Well, it seemed that you had to operate under the presumption that anything you did would presume you were guilty of some type of a base motive. For example, as we found out shortly
after we were in business, many times you had to invest additional money into a company. The very fact that they were growing … either they grew so fast that you couldn't plan or control it, or they ran into unexpected problems that you didn't anticipate when you originally made the investment, so they needed more money to continue to be viable. Well, that was almost a no-no as far as the Investment Act section of the SEC, and we had to write up a request for an additional investment.

They were supposed to get back to us within a reasonable length of time, but they never did, and a company could go under while they were monkeying around trying to figure your motives. I will say categorically in our company we never took advantage of a reinvestment. That isn't to say that there weren't firms that did. In other words, if they come into my parlor, said the spider to the fly, and then after that they started to squeeze them. We didn't, and I would know that, but the SEC would never come to a decision.

The other thing was that we lost good people working for us, because being subject to the Investment Act, the people who were making decisions for us or helping us, they couldn't be compensated if there was gain. All we could do is get hit with the losses, and for anybody who was a party to helping a company grow and expand … we couldn't take any types of options or warrants. They were a “no-no”. Everything that we would do would have to be second-guessed. First-guessed and then second-guessed.

**DH:** So your directors could not share in the equity stakes.

**AR:** The directors could not and neither could any employees, either directly or indirectly.

**DH:** So they could only be compensated with direct salary.

**AR:** Salary, yes. Everything was very much “run by the book.” It was ridiculous. They couldn’t operate with the profit incentive.

**DH:** We'll come back a little bit later on to your efforts to reorganize the company, but before we go on to that, I'd like to ask you a few questions about general investment policy. Right around the start you'd mentioned Pride corporation, the hybrid seed company and others. Can you briefly tell me how you identified your investment opportunities generally? How, for example, did you hear about the Pride Seed Corn or several of the other companies you initially invested in?

**AR:** I can't quite recall the genesis of the Pride … it might have been though the Northwestern Bank, but bear in mind that when Pride came to us, there was no other show in town, and they needed some money to expand their facilities. They were a hybrid seed operation in Glenhaven, Wisconsin, and they did have an intrastate corporation with all Wisconsin shareholders. When they came to us, we invested some money. Shortly thereafter, one of their corporate officers came to me, very worried. The principal had taken the money we put in the front door, taken it out the back door and invested in lead mine shares in Salt Lake City where they had some kind of a stock exchange for mining stock or something like that.

When we found out, we called upon our auditing firm, Touche Ross, who had a client in La
Crosse near there, said, "Go on down … We've got a right to look at the books and receive reports." They found this money had been lent to the principal for him to invest in a lead mine, and there hadn't been any notification or record. So we had a respectful meeting and we advised him, as a president of a publicly held corporation, albeit an intrastate one, that he might have little problems with the Security Commission in the state of Wisconsin if he didn't put the money back.

Well, he did, and he was madder than hell. He got so mad, he said, "I'm going to call the debenture." What were we going to do? Convert into equity or get paid? Well, I reasoned that he wouldn't have wanted to call if he didn't have some type of an out, so we elected to convert into equity instead of being repaid. It turned out we made a good call, because he had a deal cooking with hybrid seed company, Northrup King, now owned by a Swiss corporation, Novartis.

Anyhow, we made a good call, and they had to pay us out when they were sold out to Northrup King. But we didn't have the luxury of what an SBIC has today; that is, a debt instrument with warrants. We had to convert. But that's since been changed.

DH: How did you decide generally on the investment structure? You had the choice of issuing debt or making it convertible or taking equity. How did you decide among these structures?

AR: We originally worked with convertible debentures. We didn't have the benefit of warrants or options. We took convertibles, but we never had high-ticket interest coupons. We were always at the low-ball end. And we weren't looking for an inordinate amount of equity to squeeze, even though we were the only ones originally, and later on one of the very few. We tried to put ourselves in the position of getting some reasonable concept of what the business was worth.

We had an active board that included some top people. John Driscoll, of the Weyerhaeuser Corporation, was a director. We had Harry Barnes, an executive vice president of Gould National Battery; Harold Wood, a top, top man in the security business; we had Leonard Dayton of the Dayton family and an investment banker … a big board, too big.

DH: Thirteen individuals.

AR: Yes, and we had an executive committee of perhaps five. Jim Harris, a vice president, and executive VP for investments at the Norwest Bank in those days. They were first-class people. They were kind of like an investment club or an investment committee. They didn't have all of the things that have come out of this today. If I were reincarnated, I'd do things a lot differently with the partnership and a few other things, but in those days they weren't yet born and people didn't know what we had. Then they found out that it was pretty good. Then they heard that many in the SBIC industry were vultures. We looked at deals and we tried to see the technology. We made, as you may have become aware, the very first investment in software.

DH: Comserv.

AR: Comserv. Yes. Incidentally, Rich Daley is still around. We're very good friends. He does consulting work. And we made an investment which was very successful in Mortgage Banking
Servicing. We had a hell of a time persuading SBIC that it was an eligible investment, because they couldn't quite understand that we weren't, in essence, investing in a re-lender. We were investing in a “servicer”. A lot of these things that people understand today, like software, nobody understood at that time, including ourselves.

DH: Sure. It was early on. I want to come back to an earlier question I had asked about identifying investment opportunities generally. Were the board of directors instrumental in identifying these opportunities? Who were the individuals?

AR: They were helpful, but we developed another technique, and it still is a pretty good one, and, I think, much copied. We put on seminars. I had become president of the Minnesota Chamber of Commerce, and we would get them to be one sponsor, and the Minneapolis Chamber and the St. Paul Chamber, were co-sponsors, and we put on seminars. We would get principals of a couple of portfolio companies and people from Piper-Jaffray or from Dain, as presenters, and we got them qualified for CLE [continuing legal education] and also for the accountants (CPAs). We charged for them, and we'd have 150 or more in attendance. We were the first in America to do that. That was kind of innovative marketing.

Contacts came through our board, as they were good people, and we had never been caught doing anything regarded as improper. Early on, Norwest Bank, Northwest then, was a shareholder of ours, and they used it as a test to probably create Northwest Growth Fund, which is one of the biggest. They used that to kind of find out what was going on. But when they made the investment in us, it was the first investment on the part of a bank in an outside venture firm.

DH: I see. What was the ratio of proposals or business plans received to the number of projects that you eventually funded over the life of First Midwest?

AR: Probably pretty standard, you know. Well, just take a figure like 100. Out of 100, you could dismiss a good portion of them because they were facetious, and were not serious proposals. They'd come in over a telephone or an inquiry like that. Out of 100, you'd probably get ten that you could keep going on. They had enough merit into them that you wouldn't dismiss it out of hand or toss it in the wastebasket. And out of the ten, if you could get probably two or three out of those, you know, the ratio of winners and losers was the same with us as with everybody else, if they tell the truth. And of the ten that you took on, you would get probably two outright losers, and then you'd get five or six what I would call the “living dead”. In other words, you'd get your money back, but really they were losers because you have the time factor of money, and you had a lot of wasted effort. Then one or two or three, you'd have winners, you know. It was the case of when you held them.

You cannot dismiss the judgment call and the experience call in these things. You can have all the formulas and all the prestigious degrees, but you've still got to have a gut feeling and you must have some ordinary horse sense … and you've got to have the nerve to pull the trigger. I've seen people in the venture business that -I want to be cautious -that just can't make successful ventures because they don't have the courage of their conviction. They won't pull the trigger when they should.
DH: By "pulling the trigger," you mean exiting the investment?

AR: Putting more dough in or exiting or getting rid of a CEO or other -

DH: Management changes. Sure. Can you tell me how you typically went about doing your due diligence? Out of the, say, ten out of the 100 that you thought might have some potential, how would you go about doing your due diligence?

AR: Well, in the first place, you get a business plan and you look at the numbers. If they make sense, then you have an on-site review. You know, a lot of times you go in and see a factory, you look at the factory floor or you take a look at the way things are moving along, the confusion or the lack of confusion, or expectations. I was always a “people person” because of my background. I didn't have a science background. Obviously I was born long before computers were part of the deal. So I was involved with people. I'm a past national president of the University of Minnesota alums and past president of the Minnesota Chamber of Commerce. I was a state convention chairman of the Republicans and I went to two national Republican conventions as a delegate. I've been around with people in my lifetime, and with organizations, so I was kind of a “people person”.

I always had someone in our organization that was what I would call a number-cruncher. I've had accounting, but it's was Advanced General. I don't make a claim to be a CPA or anything like that. I always had access to someone internally -now, today, a man who's not here today, who's my associate for the past twenty-three years, Walt Tiffin, he's a CPA. I knew him first when he was with Touche Ross when he came in to audit First Midwest in 1961. That's a lot of years ago. Then he went on and became head of a bank holding company, a small one. But I never claimed nor do I claim to be a number-cruncher. We tried to know who had those capabilities.

Not too long after we were in business, I found out how much I didn't know about a lot of things. Some years, maybe too late in our game, we had what was called a Technology Council. C. Walton Lillehei, who just was buried here last week, was a world-renowned cardiologist and developer of the pacemaker. He was a dear friend of ours. We had some other people on the technology council. It was a function. I think we started it too late ... I'll own up to that. But I think too many venture capitalists are not aware of all the things they don't know.

DH: Could you tell me a little bit more about the Technical Advisory Board, of which Lillehei was a part of?

AR: We had, for example, a metallurgy deal. We had dean of the University of Minnesota—Schools of Mineral and Metallurgical Engineering. We used him that case. And we had a man who was knowledgeable in computer sciences, Bill Franta, head of the computer sciences at the U. We didn't get them involved soon enough.

DH: But when you did get them involved, you did use them?

AR: Oh, yes. I really would say this -I don't know what your attitude or your approach will be. I think you'll find out with many venture capital firms, as you get into it, particularly if you're
going to go into the field, there's a lot of them that have NIH attitude or the feeling that they've
got to know how little you know about how many things and so on, a sense of - I won't call it
humility. You've got to have a sense of confidence, but you've also got to know what you're
looking at, and many people don't. They just react.

DH: Did the Technical Advisory Board ever give you any leads to investment opportunities or
were they simply there to evaluate?

AR: They were a referral. They did not give us what I would call -what I hoped would also be a
two-way street.

DH: How did you select your industrial coverage of investments? Did you purposefully try to get
investments in specific industrial segments?

AR: Well, I kind of think what we ended up with was -- we didn't state it, but I think because I'm
pretty much of a generalist, I think that's where we ended up. Probably if I'd had more of a
technical background, I would have done that.

DH: So it was more an evaluation of the profitability of a venture?

AR: I'll say if I had virtue, it was the ability to evaluate the principals. If I had a fault, maybe I
was too much people oriented.

DH: How did you decide on how early of a company to get into? In other words, did you look for
later-stage investments in terms of already developed or mature businesses, or did you look for
very early-stage investments?

AR: We didn't look at concept stages. In other words, I didn't mind seeing ourselves get into a
deal if they were operating and hadn't achieved profitability. That did not disturb me. But I
wanted to at least see some kind of a pattern.

DH: What was your time horizon that you were looking at for these investments?

AR: Well, in a sense we were naive. I think when we were in this deal, we didn't have enough
blood lust. In other words, maybe you'd call us early settlers. Our criteria for profitability or gain
was probably lower than what I think the new “wunderkind” have today. Maybe it's because of
the explosion of these things like the networks and all the rest. But we had profitable ventures.
For our concepts -I'll go back to my antecedents.

I'm an old bird, and I go back to -I lived through the Depression years. I was going to a prep
school, a military academy, graduated in '32. And I graduated the university in '36. Well, if you
have some framework of reference of the Depression, I will say it made an indelible impression
on me which I will never forget. My dad was pretty comfortable, but I saw too many people
around me literally starving, and I saw what happened to the marketplace, not just in '29, but in
the “ bear trap” that came through in '30 and '31, and the real Depression starting in '32 and the
recession near the end of the Depression in '37. These are years – and I'd be kidding -- if I said
that they didn't make an indelible impression on me, seeing what happened. You probably have read about it, but until you saw what did happen. So I never expected to become an instant millionaire or anything like that.

DH: So you were a little more patient with the investments.

AR: Yes. Oh, definitely. Definitely, yes. We were more patient as far as what our rate of gain or return would be on it. We weren't looking for 40 or 50 percent a year as the criteria.

DH: How would you determine a matrix for evaluating the performance of your portfolio companies? How did you assess how they were doing over the years?

AR: Very subjectively.

DH: Can you tell me a little bit about that process?

AR: I didn't have like a 10 percent for management and a 20 percent for this, a 40 percent. I had sort of a “feel-good” deal. If I felt positive about the people and what I saw on the factory floor in the wastebasket and my partner or associates could tell me that there was a possibility of a decent gross profit, that's it.

DH: Okay, Mr. Ruvelson. You were mentioning your performance matrix for these portfolio companies and your feelings about them. Could you elaborate on that?

AR: As I indicated, my background is mostly with people, and I would say probably if I had to see how we were going to factor in the matrix, it would be the people. I've been known to have a -to give you an idea, at the University of St. Thomas, they called me over there to talk. They use a lot of adjunct faculty. I had what I called the “Four Bs” of venture capital investment. The four Bs, one B was for "bucks." If I had any hunch that anybody was going to be putting their hand into the till or something like that, or had any evidence of it, I'd go in there. Another one in those days, we were more sexist; we would call them "Babes," but today where women are chief executives, "Babes" and "Boyfriends." And in the old days, we used to have another B, "Booze," today it's "Booze" and "Drugs." And the fourth one we would call it "Ballots," … people that were never satisfied in their own business, and had to have proof that everybody loved them, and so they'd indulge in a lot of community stuff … non-sequiters.

I'm quite honest about the people that we would evaluate, and a lot of factors that maybe today in the typical MBA program of venture capital would be ignored, but that and the dollars and the accounting and all of that, we would look at it. Of course, we wouldn't do it if these didn't add up, but the people factor were very important in our matrix.

DH: Could you tell me, because these companies were typically private that you've backed, it was very difficult to assess there, the kind of market value. Could you tell me a little bit about your board of directors, how you determined net asset value for companies?

AR: The true value going into the thing there, well, we would impute value to them. For
example, one that I think was a classic example was a company called Thermoserv of Anoka,
MN. They had insulated coffee servers and they're still in evidence all over the United States. We
looked at it, and they had a balance sheet. The balance sheet understated the true value of the
product. We tried to impute value and say that, you know, come in at one basis on a balance
sheet certificate and another basis, what is this company truly worth, and what is it worth today
and what could it be worth in three years or five years with the input of capital in the thing there,
and to assess it on that basis. Not nearly as scientifically as you do it at MIT or at Harvard today,
but that was the general idea.

**DH:** Could you tell me whether your company staged your disbursements of monies in an effort
to monitor your portfolio companies? Did you go visit these companies frequently?

**AR:** Visited and monthly operating statements and reporting, subject to getting all the copies of
their audits and that. You know, if they needed money, they would request a little bit, and if they
did, we'd go along. But the staging, we were not into that as much as we would be today, where
you would - like I said, we had no role models. We were going across the continent with a
covered wagon. We made our own tracks. We had no highways. We had no freeways.

**DH:** We had previous discussed Doriot and American Research and Development, which started
in 1946. Did you keep up with their practices?

**AR:** Well, as a matter of fact, it may sound strange, but I think that we initiated a technique here
by necessity that ARD picked up. You've heard of Digital Equipment, I'm sure.

**DH:** Of course.

**AR:** Well, we had a company that we invested in early on in the early Sixties called Possis and
it's still in existence. They had a small public offering, and we put some money in with them,
along with the Dayton family. Their stores were not public then. We were the lead. We put some
money in. Lenny Dayton knew about it because they had an investment advisor that had some
other Possis stock. But we put some money into them on the basis of Chris Possis, and the stock
started to move. We distributed - or we sold some shares when we had gotten a profit. It was one
of our early gains. Sold about a quarter. Then the stock really started to go. We had warrants at
15. By that time -

**AR:** We exercised a quarter of our stock early on and made a profit, from -our warrant exercise
at 15 and we got out at about 29. Then it started to really go up and started to move into the
sixties, the seventies. So we went to the SEC and asked them what we might do in the way of a
distribution. At that time it had not yet been done. (Digital had not been distributed by ARD) We
also went to the IRS and said, "We don't think that this is a taxable transaction. We think this is a
Return of Capital." And you know what? They came back at us and said, "We'll give you a No-
Action letter." In other words, "You can do it. Take your chance." We did it.

Then the SEC stalled, but when the stock hit 135, we got a release from the SEC, so we
distributed about half of our holdings to our shareholders, and that was the first return of capital
distribution, and that was the model and the prototype that ARD used in distributing Digital
Equipment. Bill Congleton was the principal of ARD and when they distributed their Digital that was their sensational big-time hit.

DH: So basically you pioneered this instrument of distributing shares without any tax consequences.

AR: With no tax. They let us get away with it. I can't say what they did thereafter, but we went to Touche Ross, and they had a wonderful tax partner. I said, "Jim, this doesn't sound to me as though it's anything but a return of capital." And he sat there for a few minutes, he said, "You know, I think you're right." At that time they were very much less formal in the major accounting firms, and they didn't send it to Washington and Chicago and all the rest. But we got a curbstone opinion from him and it was brought up, and we treated it as such. The SEC bought our reasoning that we wanted to return this to our shareholders, and they bought it.

That was the first. . . . it was a milestone. It may not sound like it today, because our return, compared to the distribution of Digital, which went into the hundreds of millions, ours was worth two or three million dollars.

DH: What year was that, approximately?

AR: I could dig it up.

DH: No need to. It was certainly in the Sixties.

AR: Oh, it was during the Sixties or the very early Seventies.

DH: That sounds about right, because when ARD distributed shares of Digital, that was somewhere around 1972.

AR: You can find that out by our paperwork, which is all down at the Historical Society.

DH: Yes, I reviewed some of that. Now I want to ask you a little bit about your exiting strategy from your investments, because that's often thought to be sometimes even more difficult than the investment decision.

AR: That's right.

DH: Could you discuss what your thinking was at First Midwest on exit strategies?

AR: Well, I'll be quite to the point. I don't think that we had as clear-cut an exit - bear in mind, I don't try to rationalize it or say - we just didn't have a clear handle on what you're calling our matrixing, and we weren't as definitive in our investment exits as we were later. It was very much a subjective thing and then probably -

DH: So it differed, case to case.
**AR:** Yes. Case to case. If we had a queasy feeling, if we felt that the bloom was coming off the rose or anything else, if we hung on -we made some very good calls on “when to hold them and when to fold them,” like a company like Interplastic. We had good contact with a particular merger and acquisition guy down in Palm Beach, Florida, Arthur Burke, and we got out of some of them like Interplastic and I think we got out very well. We got in at about a buck and a half; we got out about nineteen or something like that, which is those days was a huge hit. We didn't see the astronomical. But, you know, you could see the limitation of management and just sort of a feel good or feel punk, pull the trigger, in or out.

**DH:** Who were the people involved in the decision-making for both the investments and the exits? Was it the whole board of directors, the thirteen-member board?

**AR:** Pretty much the whole board, but mainly the executive committee, we'd be a little closer and we'd have a pre-meeting or something like that. But it was pretty much the whole board. And we had too big a board.

**DH:** Who was on the executive committee?

**AR:** There was John Driscoll and he's probably the largest holder of Weyerhaeuser in the country; Russell Baumgardner, who was then the CEO of a company called Apogee, which is a very major factor and publicly held company and made a lot of money; James Harris, who was the head of the investment department at Norwest Bank. (He's just getting off the board now of Wells Fargo. But he was a senior officer there;) Dick Moore, our corporate secretary and counsel, but that wasn't such a good idea, in plain English, attorneys are not the best ones. We were a corporate structure rather than a partnership structure. Today we would never have a corporate structure. I would never have it.

**DH:** So there were how many members of the executive committee?

**AR:** Five, and a thirteen-person Board, which was way too big.

**DH:** What was the most preferred exit strategy? Was it taking companies to the public markets or was it a merger and acquisition?

**AR:** We had some of each. Some of each. In other words, it was kind of an opportunistic decision if you could go on an IPO or you could go out on a buyout or merger and acquisition deal.

**DH:** How did you typically make the contacts in the case of a merger and acquisition? Would you contact potential companies that might be potential players?

**AR:** We did sort of lean towards this individual that I referenced, Art Burke, who was excellent. We had some successful ones. I can't think of them all offhandedly, but I know one. We had Royal Pantry Food, which had started out as a “turkey”, you know, a bad deal, and we put some money in it and put it in a “Chapter 11.” That's what you call opportunistic. And we figured that we could do something with it, and we did. We sold it out to RCA Banquet Foods. We lost some
money on the original investment and then put more money in and ran it ourselves and sold the
damn thing at a substantial gain. But we used Art in a number of cases.

Streeter Industries. The one that had gotten the attention of Northwestern National Life Insurance
was Streeter Industry, where they were in it with us and were suffering, and we stepped in and
did some things and sold it to Litton Industry at a substantial profit.

DH: This last example you just gave reminds me of a little bit about what had become very
popular in the 1980s and again today -leverage buyouts. How did you see your company vis-a-vis
the whole leverage buyout movement?

AR: Well, we probably did one of the most highly leveraged buyouts or investments. I refer to H.
and Val J. Rothschild, a mortgage banking servicing company. We went into it many years ago,
about 1964. This was with a young man with a Dartmouth [College] degree, whose uncle was on
our board, and the young man from Dartmouth had worked with him and wanted to buy the
company, but he didn't have any means. Rothschild, the uncle, got off the board and we looked at
this. We didn't call it a “leveraged buyout” then or anything. It was highly leveraged, as the buyer
had absolutely none of his own equity.

There was, however, in the H. and Val J. Rothchild Corporation, $300,000 in appreciated
securities of listed companies. We had a very knowledgeable young man who was really
responsible for the good income this firm was throwing off in the mortgage banking business.
They would place the mortgages with their investors like New York Life and other good
investors. They had a couple of other departments, i.e. management, property, insurance, etc.

So we took what little he had, the $300,000 in appreciated security value and the Northwestern
National Life and Minnesota Mutual (who had never made even a senior note investment up to
that time). They and Northwestern National Life each put in about $550,000, and we got two
other SBICs, the First of Chicago and Vanguard, now out of business. They each put in $250,000
along with ours, for $750,000 of “below the line money”, from the SBICs, $1.1 million in senior
notes, and availability to a bank line from the St. Paul Northwestern National Bank and the
Manufacturers Hanover New York, for a six-million-dollar warehousing line.

We put that deal together with Ken Rothchild's $300,000 in appreciated securities, and that was
the deal. We bought it out from the uncle for $2.1 million, and the company was later sold for 25
million. We were out of it, though, before then. But that was the first Leveraged Buyout in the
venture capital business, and was done in ’64.

DH: That's pretty early.

AR: But we didn't call it a “leveraged buyout”. Who the hell knew what a “leveraged buyout”
was? I knew what leverage was.

DH: Sure. You've mentioned something else just now about syndication; that is, having several
SBICs come in. Did you do that commonly in your investments?
AR: Yes, as we got along we did. First place, there wasn't anybody we could syndicate with. Then as soon as we started having other people in the business, we looked to have participations, yes. That's right.

DH: And how did you arrange these participations?

AR: Well, contacts, because I had contacts with the NASBIC and locally we had a deal like with Northwest Growth Fund, then it later became Norwest Growth Fund. The Dayton family was in the early participation deal. Yes, we had them. We'd take what we could and pass off the rest in the same terms.

DH: Did you ever syndicate with non-SBICs, other venture capital private sort of venture capital firms? I've read of Pathfinder Venture Capital in the files.

AR: Actually, Pathfinder is a venture capital partnership. Pathfinder was, interestingly enough, I can't recall what we did or didn't do with them. Pathfinder actually was formed by one of our officers who was with us for ten years, and we couldn't give him any options (per SEC regulations). Then when Pathfinder came along, they said to him, "We'll make you a partner." They wouldn't let us out of the damn Investment Act. We had a dickens of a time trying to get out.

DH: So that made your competitiveness to keep your personnel very difficult.

AR: We were not -to put it plainly, if you have rational people -and you certainly need them -and they could become a partner, the partnerships had developed by then. We were caught with an archaic vehicle. They didn't want to let us out, and we couldn't afford to stay in, because the SBA took years to modify their leverage deal so it was realistic. In fact, you'll see Saunders Miller; he'll tell you why and what and how. He's a very bright man, incidentally. You haven't had any contact with the agency, have you?

DH: Only more present-day kind of activity, something called SBIR, Small Business Innovative Research. Mr. Ruvelson, I'm going to ask you a little bit about your portfolio firms. I've read that over the years at First Midwest you made sixty-five investments; you backed sixty-five companies. And these companies ranged across the spectrum in industrial sector. Could you tell me, for these sixty-five firms, how did you discover the opportunities, generally, in these companies? Your interaction with the management and daily operations, and how active were you in participation in their board of directors, in guiding these ventures?

AR: You're asking a big question now.

DH: That is a big question.

AR: What part do you want me to chew on first?

DH: Maybe let's discuss the active managerial role that your firm -
AR: Well, we generally asked for, and received, a board membership. We felt that if you were going to have the right to attend a meeting or be a board member, you might as well be the board member. We never felt that we were going to be doing anything so nefarious that it would render us liable for misbehavior. A lot of people just don't want to be on a board. They think they get the same benefit by having visitation rights and all of that, but we felt that if we're in and we trust them and they can trust us, that's the way it is. But we weren't worried about liability, because we didn't do anything that would render us liable.

DH: So how many boards of directors would you typically sit on at any one time?

AR: Oh, I can't give you an exact amount, but I think at any one time probably four or five.

DH: So your participation was active along with the Executive Committee and Board of Directors.

AR: We were there, being the eyes and ears for our own executive committee and directors. So if they asked us questions, we could tell them what was going on.

DH: How often did you have to change management or assist the companies in bringing in new managers or bringing in other employees - engineers, for example?

AR: Well, bringing in other employees, of course, as they grew larger and progressed, they needed additional skills, you know, personnel for one thing or another. As far as changes, we tried to live with what we had. If it was impossible, then we blew the whistle and we had reasons to change, all the way from dishonesty and everything else. Real wild things.

DH: When you blew the whistle, would you pull the investment or would you fire the management and try to put in a new management team?

AR: We'd try to beef up the management. If that wouldn't work, we had to change the management. But generally when you were in there in an equity position, you just can't withdraw your investment, you know. It's not mature. Even if it were, there weren't the funds there because of mismanagement.

DH: Below the managerial level, how often did you come in and try to find employees for the firm?

AR: I'd say if they needed a marketing assistance or needed an area of competency and the chief financial officer was sometimes the case, it varied by situations. We didn't try to really run a company. If we had a real serious management company thing, then you might have to get in and do something with replacing the CEO and do it that way.

DH: I want to ask you a little bit about how you allocated your time over the various stages of First Midwest. We've discussed already a little bit about the 1959-60 era. But getting into the first group of investments in the early Sixties, what percentage of your time would you say you spent in various activities, and could you first describe the activities and then the approximate
percentage of time in your activity?

AR: Well, of course you have administration of a corporation, and that would take time. Then the participation in the activities of your portfolio of investments, that took time. Then the area of business development.

To me, business development covered a multitude of sins. If I, for example, were the national president of the University of Minnesota Alumni Association, I was a pretty good lightning rod. If I was president of the state Chamber of Commerce, that wasn't a bad catbird seat. For example, on the American Arbitration Association, that was a good meeting spot for me to become familiar with attorneys. That was a big deal. And on the Lawyers for Professional Responsibility board where I was one of six non-lawyers, that was another good place to meet people of the legal profession. And a lot of times lawyers are a good contact point so far as becoming acquainted with investments because of their client relationships. And also they'd watch how you'd behave yourself, you know. The word could get out that you were a right guy or foul ball.

DH: So could you assign approximate percentages to each of these activities: business development, trying to find more financing for the portfolio companies, monitoring your portfolio companies? Approximately how much administration?

AR: In my case, I think I spent quite a bit of time at what you could call business development outside activities. And also the fact that I'd been active in NASBIC in the early years, if we needed participation or something like that, we had good contacts around the whole country. Being president of NASBIC didn't hurt at all.

DH: It would only enhance your -

AR: And we got called in, too. We called people in, like I said.

DH: So you spent a fair amount of time in leadership positions and developing your contacts.

AR: Yes. That is correct.

DH: How did that change as you got into the late Sixties and into the Seventies?

AR: Well, we had a little larger organization, so the internals were less pressing. We started out, I was the chief cook and bottle washer, and I had a part-time secretary. That's how we started out in '59. Then we went public and you had the shareholders and you had this and you got that, and you got public relations. So it varied, whether we were publicly held or privately held.

A lot of time was spent needlessly and wastefully in trying to keep up with the early regs, because you never knew what ( -people today just cannot comprehend when we say what we had to contend with). Also, trying to get funding, because with the SBA … while we had the theoretical capability of being able to get leverage, either the money wasn't there or this didn't happen or that didn't happen. It was just a cinch and they had a succession of SBA investment people, they were like a parade of Cox’s Army; they changed them every year and they were all
different; one was a regulator, one a business developer and everything else. Today there's a continuous flow. It's just impossible to comprehend what we had to contend with.

**DH:** It wasn't quite well worked out at that point.

**AR:** No, because you'd get a man like Phil David Fine, when Kennedy came in, then he'd have a successor, Jim Paris, who was just the reverse. He was … don't get me started. We could never keep up with them.

**DH:** So did you have an employee, someone full-time to keep up with the reporting requirements, the government's requirements?

**AR:** Oh, whoever was our CFO would take care of that. I didn't have to do that. How many SBICs or venture capitalists are you interviewing? I'm going to ask you that question.

**DH:** That's fine. Just several around California and the Boston area, but you're the first interviewee for an SBIC per se.

**AR:** Okay.

**DH:** There are not so many SBICs these days.

**AR:** You know there are different types today. Even some mezzanine fund SBICs. They are all different.

**DH:** There's a lot of different varieties. I was wondering if you could tell me more about Craig Hallum, the investment banker who took FMC public.

**AR:** They were the very first. But it was a co-underwriting. Actually, on that deal when we went public, Paine-Webber became the principal, but it started with Craig Hallum. They couldn't handle the books, so Paine-Webber became the one that was the principal.

**DH:** Could you describe the nature of your relationships with these and other investment bankers? For example, Piper Jaffray.

**AR:** Piper Jaffray was friendly. Of course, Piper today has its own venture business, so all bets are changed. Dain Bosworth … we had a modest relationship with them and with portfolio companies that we'd bring in to them.

**DH:** How much time did you spend developing these contacts at the various investment banks or the financial community?

**AR:** At one time with Piper Jaffray, we had one of their men, Bill Ellis, their COO and president -he retired this past year -was on our board. And before him, David Stanley was on our board. So at one time they were kind of wired and we were kind of wired in there. But we were never unfriendly with others. I mean it wasn't a case of the old school tie or anything like that.
DH: What were the most important aspects that you were looking for when you worked with particular investment bankers?

AR: Well, maybe they might refer something to us, or if we had a portfolio company that was appropriate, they would do something, if we were helping on a placement or public marketplace. But we weren't of a size that we should have been and could have been, had we done what Paine-Webber wanted to do with us in 1960 and put us up to 25 million public immediately . . . but that's hindsight. We were always friendly, but never close.

DH: We had discussed before the proposition of taking First Midwest up to 25 million instead of 1-point-some-odd million. Why did you reject the 25 million?

AR: Because I was basically associated with my father's very private, small diamond importing business, and I just couldn't see - I hadn't had the exposure to the New York and San Francisco markets. I just couldn't see what I could do and give a profitable return to our investors, and I just didn't think in those terms. That's all and I made a mistake.

When Jim Devant called me in Washington at the time I was giving testimony, he said, "I want you down in New York on Monday morning. I'm going to be there. I'll get you 25 million dollars." And they did get 25 million dollars for an SBIC in Cleveland and one in Nashville … and neither one of them did very well, I might add. But I just said, "I don't see how we can digest that." I didn't have the organization. I didn't have the background. There was no comparable situation today with all these hundreds of partnerships and you wonder how that could be. But at one time there was nothing. Absolutely nothing.

DH: These other companies that were funded subsequently for 25 million, were they SBICs?

AR: Yes. The one in Cleveland, yes. Yes, there were two or three funded shortly thereafter for 25 or 30 million dollars.

DH: We'd discussed before your change or the constraints placed on your organization due to the 1940 act. Now, either in 1970 or '72 period, or in 1983, I'm not sure, your organization tried to change to a partnership status, have a reorganization.

AR: They wouldn't let us reorganize to become a partnership.

DH: Could you discuss -

AR: Well, all I know is we spent a lot of time and money trying to get out of the public corporate structure. I'll tell you the same applied to California Capital (Frank Chambers is dead) but he had a hell of a time getting out. Arthur Little of Narragansett Capital, where they are, could you possibly have access to him, Arthur Little?

DH: Yes.
AR: You can use my name. Tell him Buddy Ruvelson talked about it. It cost him beaucoup time, beaucoup bucks, and they just wore you out. We just gave up. That's all.

DH: So when you said that you couldn't get out, could you be -

AR: You could liquidate out, I guess. That's about it, yes. That was your alternative.

DH: So you would have to repay the capital. Otherwise, there was really no exceptions.

AR: And they had one in Chicago, he was the only investor. I'm trying to think and he tried to get out. He also had a bad time. They just wore you out, that's all. They wouldn't let you - I'm going to make a comment to you. This SEC didn’t want to let you eat, and they didn't want to let you sleep. That's about it. You couldn't operate under their ground rules, but they didn't want to let you out of their clutches. Why, I don't know. They wanted you in their clutches. In 1960, when we went public, the day we registered, we were under the Investment Act.

"We’re now operating under the Investment Act of 1940." We said, "what’s the Investment Act of 1940?" I found out. It was that vehicle which was created by Joseph Kennedy, head of the SEC, after he had made his hundreds of millions of dollars manipulating the marketplace. Then he wanted to reform everybody else. We didn't know it, but they treated us as if we had a portfolio of publicly traded stocks, which we didn't; we had these little illiquid investments in small companies.

DH: So those efforts to reorganize the company to a partnership -

AR: Wouldn't let us out.

DH: -was not successful.

AR: We gave up. That's all.

DH: I'm going to ask you a few questions about the internal organization of First Midwest. Can you tell me about the personnel that you had running day-to-day operations at First Midwest?

AR: Well, I had an executive secretary, who retired here in the end of 1998, Patricia Montgomery. She was with me from 1965 until this last year, 1998, December. Then we had Andrew Greenshields, an early one of our hires. He was with me ten years, and later he became a principal partner with Pathfinder. He's still around and we get together once in a while. I had another man as an administrator - he had been with the SBA, when he came on. He lasted about a year and a half. Next we had a CFO, Francis Anderson, who became rather active in operations more than handling finances. And we had a number of employees.

Typically there was myself and two or three other men, and one of those would always be a CPA, so we could rely on that. Then we had a generalist, and we had a couple of clericals. So we had a modest staff. It never was structured like a true partnership, in other words, like we wanted and could have done. Too much time spent in reporting and complying.
DH: How did you come into contact with Greenshields and Anderson? How did you hire these people?

AR: Andy Greenshields came by one day to see about a limited real estate partnership. He said, "How do I get into the venture capital business?" I said, "What do you want to do that for?" And I asked him what he did at the university, where he had never burned the place down. But he sort of impressed me, and I sent him over to an industrial psychologist. I said, "I think this fellow has got good people skills," and he came back at me and said, "I think he does, too." And it worked out fine, and he became a very successful venture capitalist, after he left me for a partnership.

Another I identified primarily on the basis of their number-crunching. That's pretty much the way it was. Roelke, Gene Roelke, was the first man hired. He was a lawyer who had been with the SBA. Fritz Anderson, besides his number-crunching, had good people skills.

DH: That's interesting. You had quite an impressive board of directors and executive committee. How did you assemble and get these people interested in joining your organization?

AR: Well, that's a good question. I think some knew me in non-business contexts. For example, some knew me even from the Chamber of Commerce, some from Republican politics, some from University of Minnesota. So I'd say, yes, I always had a … and I had outside civic and political activities. I was known about town. I'm a fourth-generation St. Paulite, and I've been around and about and I've never been caught yet. [Laughter] So they weren't too afraid of associating.

DH: So you persuaded each of these people to -

AR: Yes. Never had too much trouble. I had good people, honorable people, and that was it.

DH: Something that I read in the files is that you had a company, a subsidiary company, that was a fee-based activity. I guess I read this in your 1960 prospectus, when First Midwest was going public. It was basically a fee-based organization that would provide management consulting. Would you tell me about the success of your business?

AR: Never in connection with our investments. Never. Never. We're doing some, like I said, consulting work here on a time basis without kickers.

DH: So the activities that were associated with your venture capital organization, the active management and consulting was bundled into the equity.

AR: We had an equity deal. We were equity. We never were paid as consultants for a portfolio company.

DH: Now I'm going to ask a little bit about salary and bonus. We discussed previously that it was quite difficult under the 1940 Act to properly compensate and give incentives for the people in your organization. How did you manage that in the early 1960s period?
AR: It wasn't too much of a problem in the Sixties, but as you get closer to this era, to be able to have people or attract them, we were pretty much out of the rat race by that time. It's only from the mid Eighties on. But we've been in a euphoric situation here for the last eight or nine years. People have forgotten that everybody liked to have a regular paycheck and that. We couldn't give them the upside kickers. We were able to be competitive, but when it got to be a case where you couldn't give them a piece of the action and the partnership form really started to develop, we were out of it completely.

DH: Do you think that led to the demise of the SBIC program in general?

AR: It certainly made it difficult.

DH: And the government people refused to -

AR: They didn't understand … they just didn't understand. And the SEC '40 Act was based on assumptions that they ought to be a police force to police people like Joe Kennedy before he reformed. You've got to give people a chance to get some action, that's all.

DH: How much time and resources did you devote to lobbying the government or SEC to reform or -

AR: A lot of it, but it was just hopeless.

DH: To no avail.

AR: When you get back, I'd be very curious if you get a chance to talk to Arthur Little or Don Christianson. You've got to hear these things, because not only did we have problems with the SBA, they also had these SEC '40 Act problems. Don Christianson knows them first-hand, too.

DH: That's interesting. I'm going to ask you a set of broader questions about venture capital and its impact in Minnesota. I see a plaque on your wall that says "Alan ‘Bud’ Ruvelson, Founding Father of Minnesota Venture Capital."

AR: That came from Pathfinder. Andrew Greenshield asked me to speak at their tenth anniversary. He had been with me ten years, and when they had a ten-year anniversary, he asked me to (I'm sort of like a Myron Cohen of the industry) kibbitz a little bit. Which I did, and he gave me the plaque as a surprise when I got there.

DH: That's great. What is your impression of the impact of venture capital on Minneapolis and Minnesota development of industry?

AR: Well, let me give you an instance. I remember when we started and we had this office on the Nicollet Mall, First Midwest Small Business Investment Company. But anyhow, there was me and a part-time secretary. Just earlier this spring, I was an invited guest to the open house of St. Paul Ventures, which is part of the St. Paul Insurance Company, held at their new offices on Freeway 94. And they have a solid floor overlooking the west suburbs, and they hosted this
beautiful reception. When I went upstairs, and I was thinking to myself, my God, here in the span of my lifetime, from 1959 to 1999, just forty years, I go from a small one-horse office on the Nicollet Mall, and I'm up there in this magnificent suite.

I'll be eighty-four, you know, in September and I've got most of my marbles. I can't say I'm the person I was when I was at forty-five or fifty, but I've still got most of them. I still can pick the racing horses and play them. But here I am, and to see something like this in my lifetime, it's unbelievable. The analogy of going across the country on an uncharted wagon trail as against a freeway, but here's St. Paul Ventures, and they've got a complete structure. To cap it off, their number-two person came up to me. He said, "I want to introduce myself." He said, "You remember Tim Hay?" I said, "I sure do." (Tim Hay was the head of Security Pacific Bank Group, which was a big bank before it was taken over by First Interstate.) He said, "Tim is in a rest home now." Tim followed me by about five or six years as NASBIC as a president. And here was one of his younger associates. Of course, they're investing beaucoup bucks today. And this is it. It's indescribable.

**DH:** So it's just progressed a tremendous amount.

**AR:** Oh! I did this paper—you can read it - in 1994. I think at that time I figured out it [venture capital funds] had gone from under $400,000 when we started, to over $4 billion that you could put your hand on without the independent gunslingers. Four billion right in this market. At one time, whereas the Twin Cities were pretty much a lead place as far as venture investment, this is not the case today. Even though we've got some major companies, their operations, the guts of them, are on either coast, primarily on the West Coast, and in one case (Norwest Ventures), they have offices in Boston, and their venture operations are also on the West Coast. That's how it's changed from our tutoring them to get in the venture business.

**DH:** Expanded greatly.

**AR:** Yes.

**DH:** I'm very interested in venture capital as an engine of local development and regional development. How important do you think First Midwest, along with these other venture capital companies that you've mentioned, St. Paul Ventures and Pathfinder, how instrumental have they been in supporting and growing local enterprises that contribute importantly?

**AR:** Very much. Very much.

**DH:** Can you give me specific examples?

**AR:** Because not only have organized venture capital been important, but the wealth that's been created by these IPOs and all that has created a significant pool of affluent people who now participate in placements. So it's just a progression. You've got the IPO market. That's important. You've got the venture market. That's important. And you've got the newly created millionaires and zillionaires and everything like that for the placement market.
What will happen? There's going to be another facet to this that I think we've got to face, and that is, the market will not always be going up, in my opinion. And when they start to head for the exits, get out of the way. That's when venture capital funds will be much more important, relatively, than they are today. Today, everybody's got kind of a feel-good attitude. . . "Something new? I'm putting my money on it." But when they start getting burned and the averages drop and Funds start to liquidate, then the pools of capital that are available for investment will be much more important, and they'll be buying on relatively better terms. Today they're not at a great advantage.

DH: Is that because of the longer-term nature of venture capital?

AR: Yes. You don't have to look to the payback. For example, when banks start to get religion, they really get religion and they pull back sharply, and you find what's true, is that when you need them, they're not there. In the case of venture capital, they're in there. They're locked in. If they're debentures, they're buying straight equity. While they've got covenants, where are they going to go to? So that's going to be the kind of capital that's going to be very interesting and very helpful.

As for the gunslingers and all of these placement deals, when they cool -I might give you a little perspective. When we started out in '59 and '60 and '61, there was a pretty good IPO market in the Twin Cities . . . and the only active one in the whole country. You didn't see it in Boston. You didn't see it in Chicago. But right here we had a big dollar-fifteen stock market, a dollar for the company, fifteen cents for the underwriter. Most of those firms have gone by the wayside. However, from May of 1961 until I think it was 1965 or '66, there was not one single IPO.

DH: In Minnesota?

AR: In our local market. That's what you call a hiatus, a total exodus. I lived through that, and we opened up again and closed. In my lifetime, I've seen a few market changes. I saw the market change in '73, '74, '75, when the Jews and the Arabs started confronting each other and we didn't have any oil. People forget these things. You tend to remember that which is pleasant, and you forget that which is unpleasant. But we will see a time -you didn't come up here for my prognostications. It's going to be very important to have venture capital firms and partnerships and SBICs when this thing crunches. They will be the only shows in town.

DH: What are the other institutions, be it the University of Minnesota or the law firms, that have had a complementary effect on the effectiveness of venture capital?

AR: It's had a big effect on it, because certainly they are generators. Some of the major law firms have done a lot of work. They don't make as much as they do on cigarette verdicts, but they bill a lot of hours on the investment trust instruments, and that's good for them.

The banking picture, that's changed a lot. I won't get into that one. But investment banking? Yes, it's made for a lot of profits on their part with a few of the firms. Piper Jaffray is probably the most identified with them. We don't feel it as much as with the major firms, with their regional offices, but Piper Jaffray was and still is a factor. But the law firms and accounting firms, you know, they are all getting business out of these enterprises, and the banks. Job creation has also
been very important.

**DH:** So how important for regional or local Minneapolis development have all these institutions been in supporting venture capital?

**AR:** Very great, because companies - you see companies like Medtronic or St. Jude and 3M created long before. But we've also had a lot of the companies that have been financed by venture capital firms that have been merged and consolidated. We've had a tremendous deal. Tremendous. At one time we were the center here for computers. We had Control Data, Honeywell, Remington Rand Univac, Cray Research, Data 100 and any number of firms. Yes. We've an active local market, as you can see. Did you ever look at the Minneapolis-St. Paul financial pages?

**DH:** Sure. Of course.

**AR:** You can see they've got a lot of companies, many of them held by venture capital firms.

**DH:** Interesting. And also with respect to medical devices.

**AR:** The heart valves, yes. The pacemakers, yes. You're looking at the guy who looked at the right deal at the wrong time and turned it off for that reason. I looked at Medtronic before they had a CFO, I had a clue from one of my board. I went out there, and they had this gorgeous building that had just been built by Ryan for them on a lease-back basis, two corporate planes, and nobody that could answer any questions to us on financing. We got nervous and didn't go along. About a year later, they were in different shape. It's looking at the right deal at the right time. So “don't look at the right deal at the wrong time” or the “wrong deal at the right time”.

**DH:** So would you say the Medtronic deal was maybe your biggest regret?

**AR:** We didn't do it. We looked at a deal with a lot of potential, and we looked at it before we could identify it. There was nobody there to answer our questions on numbers. All we could see was a wonderful building with lots of vacant spaces in it with piped-in music. We asked a couple of questions and in the course of it found out that the principals each had a leased plane which didn't add up to me.

**DH:** How about your relationship with the other venture capital firms in town - Northstar or Pathfinder?

**AR:** Always was very cordial. They were very compatible in this area. I'm not saying that Middle Western people are more virtuous or anything like that, but there's sort of a camaraderie here. You didn't have a lot of change in the community. You could always get a line on somebody. So I would say whether it was Norwest with Dan Haggerty or Terry Glarner at Northstar, or Pathfinder, you could do business on a handshake, and we did, without formal documents. A most compatible community.

**DH:** Are there trade associations, venture capital trade associations?
AR: Yes, once a month. It started out with Andy Greenshields, when he was with First Midwest when he was working with us. Dan Haggerty, who was a junior at Norwest, and Terry Glarner, a principal at Northstar when it started out, we could have met in a telephone booth, it was so small. Today they have a large group and meet once every month at the Minneapolis Club. Oh, yes, it's totally changed.

DH: So you know the community very well.

AR: Oh, you bet. You call one or the other venturers and you want to get a line on somebody. You get the straight stuff and I would feel very comfortable - I won't say that people in New York are more devious, but I don't think you get to know each other and they're not as compatible. That's my own opinion.

DH: I'm going to ask an even broader question now about the macro economics and sort of public policy effects on venture capital. You discussed before the cyclicality of the industry, the in-flows.

AR: I think it's an inverse - I think there's “a time to reap and there's a time to sow”. I think that the time to sow - there'll be a time when there'll be more deals available to institutional investors and venture capital, and you'll sit with them for a while, and then you go on to a period when the market takes you out of it, puts you out of your misery through IPOs mergers and acquisitions. But I think that right now a good deal is not as easy to find, because there's so many alternatives.

DH: And what drives this cyclicality, in your opinion?

AR: I think it's an inverse ratio to prosperity. What makes for a booming stock market and a lot of other things, I think, detracts from the role of a venture investor.

DH: So when the IPO market is hot, that's when the in-flows are coming in and things dry up the economy, the macro economic picture is -

AR: That's correct. But it's a great hedger. I think it is.

DH: How about public policy? Any public policy initiatives that have a great impact on the venture capital industry?

AR: Well, I think there was a period when this thought of “vulture capital” came out, and part of it was deserved and part of it was a misunderstanding, but there were people that did ask for it and they were doing things they shouldn't.

But public policy? I think today that there are so many alternative sources of venture capital that they don't have to - I don't say they should be totally unregulated, but I think there's enough competition today to keep them honest.

DH: Do you believe that the SBIC program or venture capital industry at large has addressed this
AR: Oh, yes, because I think the disparity of venture capital investors that was evident in the Fifties, when they were doing the evaluation. When we were licensed in '59 under the Investment Act of '58, which was written in response to what they evaluated to be the dearth of venture capital in the Fifties for growing businesses, I think it was a legitimate need. I think they did make an effort to respond … It had to be amended … It had to grow … It had to mature. There had to be success stories and the rest of it. But I think it's happened. There's now plenty of money around. Plenty of it.

DH: You've mentioned a few times “vulture capitalism.” What do you mean by that?

AR: There are people, like others in everything else, who are predators, you know, people who might want to take advantage of others. That everybody is another sheep to be shorn. But today I think you've got enough legitimate sources of venture capital looking for places to make a legitimate capital gain, and they don't look to bleed everybody or take them over. There was a problem for a time there when they had to clean it up a bit.

DH: That's interesting. I'm going to ask you a question about the high-tech nature of your investments. It's often thought that modern venture capitalists are backing companies that are sort of technically oriented. That doesn't seem to be one of First Midwest's priorities. Could you comment on what were the strengths of your company?

AR: Again, our strengths were our capability of understanding and living with people. Our weaknesses, as I said, were again the fact that I did not have an engineering degree or background. I wasn't a product of the Institute of Technology at the University, and our board had too many generalists. But then we tried to remedy it with the a technology advisory committee but I think it was too little and too late.

DH: But, nevertheless, First Midwest made several investments in technology-oriented companies.

AR: We made the first software investment in the United States, in Comserv. And there was also Possis which also had scientific implications. We had others that did have them, but we didn't have the real competencies that we should have, or we'd probably have seen more opportunities.

DH: In retrospect, would you have tried to hire maybe some engineers or some people with more technical backgrounds to join the team?

AR: Probably. Would I? Today if we were a partnership, one or more of the partners would probably would have competencies in those areas. That would be a criteria for a partner, not just the money they put in.

DH: So the partnership form - a big theme of our discussion this morning has been the corporate structure of venture capital organization.
AR: I think it's a good one.

DH: What is your opinion of the partnership structure?

AR: It was not available. That's what should have been, and might have been, if they'd let us convert, but we just couldn't do it. The tax treatment of partnerships is different today, as is the whole framework, but we didn't have the pattern, we didn't have the criteria, and it wasn't ready.

DH: If you could do it all over again?

AR: If I were reincarnated, I'd be out with a partnership, raising money, with partners who were qualified and success stories in their respective fields, and they wouldn't all be merchants.

DH: Do you see any downsides with partnership structure or any amendments to that form of organization?

AR: To me, I could live with whatever there is today. But I'd never get into the expenses of being a corporate venture partner.

DH: By corporate venture partner, you mean a company like Medtronic or 3M coming in and setting aside a certain amount of money to go into -

AR: No, a corporate investor. To be a corporate venture investor and have that as a string, fine. But if I were to be a venture investor, I would never - there would be no reason to be in a corporate form like we were. It would be a partnership. But you could be a corporation in a scientific area, investing in others, and that's fine. Nothing wrong with that.

DH: First Midwest Capital Corporation dissolved in 1985 and 1986, is that correct?

AR: Yes.

DH: Can you tell me the circumstances around that decision?

AR: We just concluded that it was a hopeless dilemma. We couldn't get out or convert. There was just nothing to do. So we did a return of capital to our shareholders.

DH: Can you tell me about your activities since 1986?

AR: Well, you're sitting here in an office. My associate for many years, Walter Tiffin, is away today. He's the CPA. One of the calls when you were here was from one of my clients. We do consulting and basically it's on a time basis.

DH: And you consult for other investors?

AR: Yes, that's correct. And once in a while people will come to us for source money which we'll do for a nominal success fee.
DH: So these are organizations that are looking for capital?

AR: They are organizations that are looking for capital of various types. Now, some of it is non-venture, you know, like a Bed and Breakfast or a motel or something like that. There's one here that I'm doing on a type of retailing in the high end, that we're operating strictly on a success-fee basis on that. There are others that we work with, we work just on a time basis. Rather nominal. We do it like that. Walter Tiffin, my CPA associate, were he connected with one of the firms that he's been with, would be billing at about double his rate.

DH: Any thoughts of forming a venture capital partnership?

AR: No, because of my age and I'm not buying green bananas, either.

DH: Do you believe, Mr. Ruvelson, that today's venture capitalists are misguided in their investments or have overemphasized certain industrial sectors at the expense of others?

AR: I won't say they're misguided. I think that they're probably looking at where the money is, you know … You go where the gold is. I suppose they've seen the big dollars that come from all these things with an "e" in front of them and that. But I think they sometimes look at those things to the exclusion of others that have real merit. Some of these "e" things are not going to hit at all, you know.

DH: What advice would you give to these venture capitalists?

AR: Depends on your area of competency. If you are going to become a part of a partnership, you indulge in those things in which you have the greatest comparable advantage and the least comparable disadvantage. That's my advice from Adam Smith. It's simplistic. But today I would say, if I were going to start a partnership, I'd think in terms of raising the money. That's not unimportant and what's going to attract dollars? Who knows what's tomorrow’s tulip craze?

DH: It's the Internet.

AR: Yes. That's it. What's tomorrow's? I don't quite know. Maybe you have to be more opportunistic.

DH: That's interesting. Thank you, Mr. Ruvelson.