

## VC funding down in Q2; Zyga was top deal

by Katharine Grayson, Staff reporter, Minneapolis / St. Paul Business Journal  
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Venture capital investment in Minnesota startups dropped to about \$29 million in the second quarter, down from about \$82 million during the prior three-month period, according to Minneapolis/St. Paul Business Journal research.

Med-tech firm **Zyga Technology Inc.** dominated the second quarter, winning about \$25 million in capital via a round led by California-based **Versant Ventures Inc.** The Minneapolis-based company is developing devices to treat lower back pain and joint problems.

It will put the capital toward launching its first product, Slimmetry, which treats patients who experience chronic pain due to excessive movement in joints that connect the hips and spine. The company also will put the funding toward ongoing clinical trials of a second product.

Zyga's previous investors, including Eden Prairie-based **Split Rock Partners**, Domain Associates and MB Venture Partners, participated in the round.

The remaining three deals for the quarter were much smaller. Mankato-based Biovation Holdings Inc. raised \$3.05 million from MVC Capital Inc., a Purchase, N.Y.-based publicly traded firm that makes equity and debt investments in small businesses. Biovation makes laminate products out of organic materials, such as soybeans and corn. The firm aims to market the products, sold under the Biosurf brand name, to decorative lighting firms, printmedia companies and other businesses.

Other deals went to RapidEngines Inc., a developer of software that companies can use to track and analyze IT data, and **Cymbet Corp.**, an Elk River-based manufacturer of environmentally friendly batteries. RapidEngines raised \$250,000 in the second quarter. It had previously raised capital from **El Dorado Ventures**. Cymbet, meanwhile, pulled in \$600,000.

Of course, the second-quarter total would be much larger if angel investment and private placement dollars were included. Minnesota startups raised at least \$14 million from such investments during the quarter, according to securities filings and news reports. Shape Medical Systems Inc., which sells technology that measures how well a person is breathing, raised about \$8 million. Meanwhile, biotech startup Miromatrix Medical Inc. raised about \$3 million.

There also was some good news for Minnesota's venture capital industry during the second quarter.

Lemhi Ventures, a Wayzata-based venture firm that backs health care startups, launched a \$150 million fund. Minneapolis-based SightLine Partners began raising capital for a \$100 million fund. Meanwhile, Versant announced plans to open a Twin Cities office.

The total amount of venture capital raised by Minnesota companies during the first quarter was revised from \$70.5 million to about \$82 million because of new information related to an investment in **Inspire Medical Systems Inc.**

That company, which is developing a device to treat sleep apnea, raised \$14.5 million, not the \$2.3 million previously reported. The firm's investors included Fridley-based med-tech giant Medtronic Inc. and TGap Ventures.

Katharine Grayson covers med tech, clean tech, technology, and venture capital, and she writes the Innovation | Minnesota blog