



Summer 2007

# Membership Newsletter

734-223-3750  
www.michiganvca.org

## Letter From the President

### Summer

Some call these the dog days of summer and hunker down in an air-conditioned room. Others go to the Hamptons or Cape Antibes. In Michigan, we work. We work not because we don't have beautiful beaches, but because we have work to do. I'm proud to be a part of the diverse team that is energized by a vision of a more robust Michigan economy, populated by successful and entrepreneurial companies, funded by venture capital. I'm proud to be working on a shared vision and shared goals for getting there. Much is happening!

The MVCA has granted two Fund Development awards, two new funds, one by a first-timer and one by a veteran. As mentioned elsewhere, Dick Beedon and his partner are capitalizing on their past entrepreneurial successes and funds they are now raising to launch MacBeedon Partners. Veteran Ian Bund will reprise his first successful Plymouth Ventures, a pledge fund, with a venture fund he and Managing Director, Mahendra Ramsingani, are launching. Two new funds; two continuing talent pools. Clearly this is a strong example of how venture capital can assist the re-invention of Michigan.

Meanwhile, Credit Suisse has expanded and diversified its portfolio: venture capital through the Venture Michigan Fund and both venture capital and private equity through the 21<sup>st</sup> Century. Venture capital is a perfect embodiment of John Donne's 17<sup>th</sup> century assertion that "No man is an island." We can both echo and amplify this sentiment when we talk about the importance of connectivity in private capital. Great companies are built by great teams and funded by great teams. Venture investing, to quote my long-time partner, Tom Porter, "is a team sport." We need connectivity among those of us who live here, those who visit here, and those we want to attract. Like the Fund Development program, the early decisions of Credit Suisse have given us a bit of the old and the new as well as a mix of the local and those outside the mitten. Jim Adox folded his Ridgeline Ventures efforts into Venture Investors, keeping Jim as a Michigan-based investor and adding incentive to the Venture Investors team to mine the Michigan landscape—the quintessential "two-fer." Both Arboretum Ventures and Ardesta are dancing to the next Roman numeral with the assistance of the 21<sup>st</sup> Century and Venture Michigan Funds. And Nth Power, it almost goes without saying that attracting to Michigan a group with deep experience in the energy sector simply has to be a part of our toolkit. We are becoming more connected.

MVCA recognizes the need for a continuum of capital. One can argue whether Michigan needs are greatest at the pre-seed stage or any stop along the continuum which extends through venture capital and growth capital and private equity. That each segment of the continuum is important, and that it needs to become more robust, is inarguable. Those investing at the earliest point need the encouragement of nearby resources to fund the next step, and then the next, or they will easily be dissuaded from taking the first one. Entrepreneurs need to see the same. The answer to the question, "If I start my company in Michigan, will the capital be there to fund my growth, and to fund an exit for my investors?" must be a "Yes!". Each may cheer for a favorite sector, but let's all be cheering for more capital of all types and more successes. Michigan will benefit not only from a continuum of capital but also from a diversity of companies that serve a variety of markets. These markets include not only the new economy, technology-driven companies, but also those companies that help re-train or in other ways re-position individuals and companies to help them thrive in the 21<sup>st</sup> century. In short, we need it all—greater connectivity and an enriched continuum of capital.

As we move toward the tail end of summer, and become even more invigorated by the coming of autumn, may we all rededicate ourselves to success and remember that it comes in many shapes and sizes.

**Mary L. Campbell**  
Founder & General Partner, EDF Ventures

## MVCA Board of Directors

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Mina Patel Sooch  
Apjohn Ventures

Jim Plonka  
Dow Chemical Corporation

Ron Reed  
Seneca Partners

Bryant Zanko  
Stryker Corporation

**SEPTEMBER 2007**

Grand Angels Conversation 2007  
Leveraging Change for Michigan's Economy  
September 12, 2007  
Hope College  
Holland, MI

MVCA Board Meeting  
September 13, 2007 / 7:00-9:00AM  
Dial-In

Michigan CleanTech VC Event  
September 14, 2007 / 1:00—5:15PM  
Campus Inn  
Ann Arbor, MI

Great Lakes 2007 Exposition & Conference  
September 18, 2007  
DeVos Place  
Grand Rapids, MI

University of Michigan: Entrepalooza 2007  
September 21, 2007  
7:30am—1:00pm  
Michigan League, 2nd Floor  
Ann Arbor, MI

BIO Mid-America Venture Forum  
September 24-26, 2007  
Hyatt Regency  
Milwaukee, WI

**OCTOBER 2007**

MVCA Board Meeting  
October 11, 2007 / 4:00-6:00PM  
Dykema  
Ann Arbor, MI

University of Michigan:  
The Role of Engaged Universities in Economic Transformation  
October 15-16, 2007  
Rackham Auditorium  
Ann Arbor, MI

MichBio Expo  
October 16-17, 2007  
Lansing Center  
Lansing, MI

University of Michigan Private Equity Conference  
October 18, 2007  
7:30AM—1:00PM  
Michigan League, Ann Arbor

The Indiana Life Science Forum  
October 22-23, 2007  
The Westin Indianapolis  
Indianapolis, IN

**NOVEMBER 2007**

MVCA Annual Meeting  
November 6, 2007  
5:30PM  
Marriott at Eagle Crest  
Ypsilanti, MI

**DECEMBER 2007**

Michigan's 21st Century Symposium  
December 6, 2007  
8:00-3:00PM  
Lansing Convention Center  
Lansing, MI

**MVCA Member Highlights**

The MVCA proudly and successfully launched a new website in May of this year. A great component of the new website is the **Executive Talent Search** tool, where members can access a growing database of C-level candidates. Please remember this tool as you seek out individuals for your portfolio companies or venture firm needs. If you are missing log-in details, please contact LeAnn Auer at [lauer@michiganvca.org](mailto:lauer@michiganvca.org).

Applications for the **Executive In Residence** and **Fund Development Programs** are still being accepted. To learn more about these programs or to find out how to apply, please visit the MVCA Spotlight section of our website's home page, at [www.michiganvca.org](http://www.michiganvca.org).

Please save the date for **MVCA's Annual Meeting** taking place on November 6, 2007 at Marriott at Eagle Crest in Ypsilanti. It is election day, so please plan to vote earlier in the day. Stay tuned for further event details.

Detroit, Michigan has been selected as the next site for the 15th Annual Conference of National Seed and Venture Funds (NASVF) Event in 2008! For more information about NASVF, please visit their website at [www.nasvf.org](http://www.nasvf.org).

Please mark your calendars for **Michigan's First Annual 21st Century Symposium** to be held on December 6, 2007 in Lansing. The MVCA and the MEDC are working together to introduce many of Michigan's start-up companies to industry participants, while also bringing together all the recipients of 21st Century Awards. Investors, entrepreneurial organizations, industry service providers, and our State Legislators will be in attendance. Details about this event are forthcoming.

The MVCA Board of Directors and Legislative Committee has been actively engaged in several legislative issues which can potentially have a negative impact on our industry. The board will soon send out a white paper describing how you may get involved. In the meantime, please see the "**Legislative Corner**" section of this newsletter for a brief update.

By the end of this year, the MVCA will publish the results of our **Venture Upstart Research Initiative**. The research will include data regarding Michigan's Venture Capital and Private Equity landscape, as well as important data about investments made in Michigan's entrepreneurial economy.



## Legislative Corner

The House Ways and Means Committee of the US Congress introduced a draft bill to amend the treatment of income received by partners for performing investment management services as ordinary income received for the performance of services. Michigan's U.S. Representative, Sander Levin (D-Detroit), introduced this legislation.

*In summary, as introduced, the bill would tax the carried interest portion of an investment partnership as ordinary income V. capital gains.*

The MVCA's stance on this issue is, if passed, would have a great negative impact to the many smaller venture capital and private equity firms. And, as a result, damage all the efforts being made in this state to ignite our future economy.

Immediate NVCA goals are to educate the legislators regarding the potential damage this legislation will do to job growth in the US economy. Specifically, they are attempting to have this legislation withdrawn or defeated.

In dialogue with the National Venture Capital Association

(NVCA), Ron Reed, the MVCA Legislative Chair and Managing Director at Seneca Partners, was invited to speak with Rep. Levin in Washington D.C.. In August, the NVCA and MVCA further collaborated by hosting a Michigan media roundtable to address the Carried Interest Taxation issue.

Members of the MVCA board will continue to support the NVCA in their efforts as well as directly address this issue with our Michigan legislators. As progress dictates, the MVCA will also contact its members with how to get involved.

"Nobody would start a fund," said Tom Kinnear, MVCA VP and Executive Director of the Zell Lurie Institute at UofM. "The irony is that he will do more damage to his state than to others."

## First Awardees of MVCA Fund Development Program Announced

The managers of the first two companies each awarded \$150,000 from the Michigan Venture Capital Association (MVCA) Fund Development Program have divergent company personalities and funding interests, yet are united behind a push to invigorate the Michigan entrepreneurial environment.

"There's a spirit of collaboration going on in the Michigan venture capital industry that hasn't been evident until recently. A lot of firms including ours are small, so the only way we'll be successful is by collaborating," Bund said.

The winning firms of MacBeedon Partners and Plymouth Venture Partners, both from Ann Arbor, will kick off fundraising for their first and second venture capital funds respectively using the award of \$75,000 a year for the next two years. The awards are part of \$2.1 million that the MVCA received in a grant in 2006 from the 21<sup>st</sup> Century Jobs Fund. LeAnn Auer, Executive Director of MVCA, said the award funds non-salaried expenses such as travel and legal fees. After fundraising the awardees will have repayment obligations. Repayment will allow the MVCA to continue to strengthen and expand the venture capital community in Michigan.

The two firms are counted among fourteen venture capital firms in the state of Michigan, who together manage approximately \$500 million in assets. These two new funds will add at least \$20 million to \$100 million more to the total amount of assets currently managed in the state.

Ian Bund, CEO from Plymouth Venture Partners, is the senior statesman amongst the managers. Bund has been in the venture capital field for over 37 years and reports having assisted with the formation of over 400 companies. Ian and his team in Plymouth Ventures I, a pledge fund formed in 2003, have announced investments in 22 companies and have realized nine exits to date through initial public offerings (IPOs) or acquisitions.

In describing Plymouth's investment strategy of funding early growth opportunities, Bund said, "We focus on the 'who'. Our challenge is finding the right people; the importance of everything else pales in comparison." The company seeks early growth opportunities through contacts such as tech transfer offices and consulting firms.

Bund speaks slowly and deliberately, an approach that his company also takes. "We take the micro approach of one company at a time, and we make most out of each opportunity. 'Steady as you go' is our philosophy."

### First Awardees of MVCA Fund Development Program Announced (Continued)

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Tom Porter, from U-M’s Zell Lurie Institute and one of the three members of the Fund Development Program selection committee, noted that Plymouth Venture Partners stood out because of their wealth of experience, very disciplined approach to venture capital, and successful prior investments.

The CEO of the other winning firm, Dick Beedon of MacBeedon Partners, returned to Michigan in 2000 after 24 years as an entrepreneur in California. He has created four Information Technology (IT) companies in the last 14 years, including two in Michigan. MacBeedon Partners, founded in early 2007, is creating its first venture capital fund. Unlike Plymouth Venture Partners, the company’s investment strategy includes a development stage focus: providing early or seed-stage funds and the business management assistance required to help develop and establish new companies.

“We’re not looking for the ‘who’. We’re looking for another Google — high risk to medium risk, good technologies that can change the world, scale like crazy and be hugely profitable,” said Beedon. “We’re going to be very proactive. We’re going to seek out ideas.”

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Beedon’s energetic, fast-idling, straight-shooting personal style suits his firm’s niche of high risk and high growth early business investment.

“I’m into making it fun and we’re going to make it fun for the companies we invest in, and teach them how to operate the company too,” Beedon said.

The MacBeedon Partners’ attitude and enthusiasm also caught the ear of the selection committee. Porter said that MacBeedon Partners stood out from the other applicants not only because of the firm’s narrowly focused specialty and plans for thorough due diligence, but also because the committee felt MacBeedon Partners would be excellent missionaries for the Michigan economy of the future.

### Overlapping Funding Interests

MacBeedon Partners is looking to fund “green and clean” and alternative energy companies, while Plymouth Venture Partners has a strong background in funding life science and medical devices. Both companies share an interest in IT and in primarily funding the Great Lakes region.

“My legacy is to help change this from a manufacturing economy to a technology one,” Beedon said. Mahendra Ramsinghani, Senior Vice President of Plymouth Venture Partners, said his firm was working to facilitate the same transition in the state when it recently funded Guidepoint Systems, a firm in Plymouth, Michigan. Guidepoint Systems is currently using technology in the automotive field for vehicle tracking.

Both Beedon and Bund feel that the risk of investing in Michigan is also its allure. “We’ve chosen to reemphasize our efforts in Michigan and the Great Lakes even though it might be a little unpopular. You make your money in venture capital during periods of change, and we’re going through dramatic change in Michigan,” Bund said.

“I’m going to help people in Michigan understand that failure is part of the formula,” Beedon said. “Fifty percent of companies are going to fail — get used to it — because if we want 50 good ones we have to have 50 that fail. One failure is not a reason not to invest in technology. We have to invest as a state, or we’ll lose. I’m going to spend 85% of my time looking for deals within the state.”

## First Awardees of MVCA Fund Development Program Announced (Continued)

### **A Rewarding Application Process**

The process of applying for the MVCA funds paid off for both firms with more than cash.

Prospective applicants should “expect to get professional treatment but be prepared, you will be challenged,” said Ramsinghani. “However, the challenges come with a nurturing approach — the panel looked at everything and suggested how we could do it better. In our case, they sent us away to do a bunch of homework.”

“The process was not overly burdensome, involved an open discussion, and will be good practice as a dry run for what we expect to hear from prospective limited partners,” said Kevin Wittrup of MacBeedon Partners.

### **Collaboration and Cash Changing the Environment for VC in Michigan, but Needed Support from State Pension Funds Is Elusive**

Both winning firms cited the MVCA itself, founded in 2003, as a catalyst for cooperation amongst venture capital firms in the state.

“There’s a spirit of collaboration going on in the Michigan venture capital industry that hasn’t been evident until recently. A lot of firms including ours are small, so the only way we’ll be successful is by collaborating,” Bund said.

For example, Plymouth Venture Partners recently funded an Ann Arbor outsourcing software firm named Janeeva. MacBeedon Partners assisted Janeeva by identifying appropriate space and management.

“If we can all work together to introduce people into our network, that’s going to make a major difference,” Beedon said.

The universities in the state are also playing an important role, as they transition to being strongly interested in putting knowledge out into the marketplace, Bund said.

In the end, all agreed that money makes a difference.

“When we think about the resources we need in Michigan, one is innovation. We have an abundance of innovative technology. What we need more of are capital and entrepreneurial management talent,” said LeAnn Auer, Executive Director of the MVCA. “The MVCA will address the need for the formation of more capital via the Fund Development Awards, and another MVCA program, Executive-In-Residence, is intended to help recruit more entrepreneurial talent”, Auer said.

Both Bund and MacBeedon encourage the State of Michigan’s pension fund, under its allocation to alternative assets, to aggressively support Michigan venture capital firms.

“The State’s pension fund has made almost no investment in Michigan’s venture capital funds. If a small percentage of its allocation to alternative assets were invested in Michigan venture capital firms rather than in several other states in the country, the outcome could be quite profitable to the beneficiaries,” said Bund.

### **Application Opportunities Still Exist**

The MVCA Fund Development Program is currently accepting applications from venture capital firms. Funds are currently available for two additional awards. Submission package details are on the MVCA website at <http://www.michiganvca.org/>.