



Letter from the President

MVCA Members,

We are off to an exciting start for 2004! One week into the new year, Governor Granholm signed the legislation which our association was instrumental in creating. The Michigan Early Stage Investment Act of 2003, as described more fully in this newsletter, established the Michigan Venture Investment Corporation ("MVIC") which authorizes the creation of a fund that will provide up to \$150 million to venture capital firms to invest in Michigan companies. Already we are seeing great excitement about this new source of capital for young Michigan companies. In her State of the State address, the Governor referred to this fund as part of a plan to make available \$500 million of additional venture capital to Michigan companies. The promise of this amount of new capital can have a significant impact on the entrepreneurial community of our state.

I am also pleased to announce that the MVCA Board has approved the nomination of Professor Tom Kinnear for the MVIC Board seat which is selected by the MVCA. Professor Kinnear has a long history with the entrepreneurial and venture communities in Michigan and he will be a positive force during the formative stages of MVIC. We are in an exciting period for the venture and entrepreneurial community in Michigan, and the MVCA is sitting at the heart of it.

Also in January, the Board of Directors approved our operating plan for 2004. This plan calls for the MVCA to build on our many successes of 2003. We will expand our outreach to the private equity and entrepreneurial communities and intend to provide a series of meaningful events where our members can be educated, share information and meet other professionals and investors.

We will expand our services to our corporate members by offering more information about our members' companies, establishing a VC News Bureau (detailed in the MVCA Committee Updates on page 2), and by publicizing the news and accomplishments of the MVCA and its members. We plan to inform audiences throughout the state about venture capital and the important role it plays in diversifying and building our economy.

As we continue to grow in membership and in stature, I call upon each of you to be a part of our success. We want and need your ideas, your energy and your time. We can be proud of our association and how much we have accomplished together so quickly. With your commitment, we can look forward to many exciting days ahead as we shape the future of Michigan.

Sincerely,

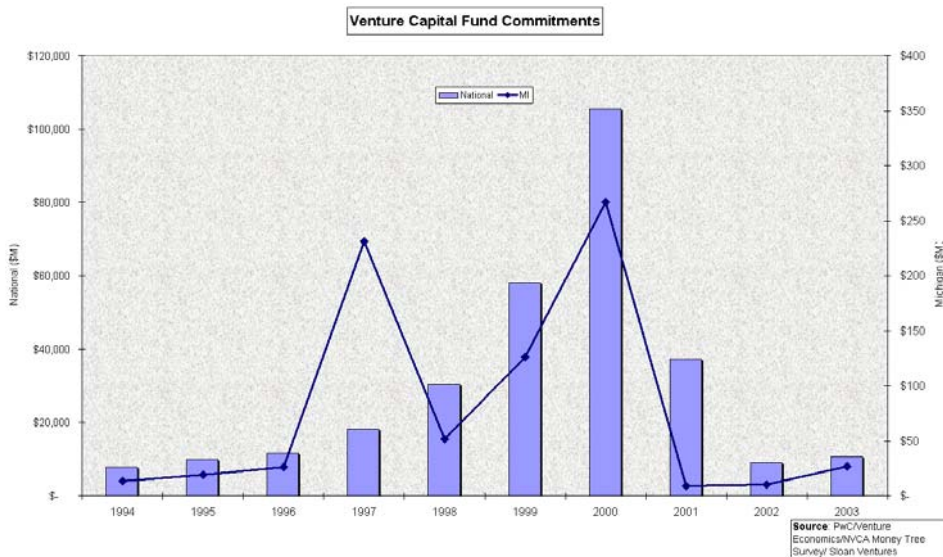
Mitch Mondry

Did You Know?

The University of Michigan was ranked tops for life science research building, according to Industrial Information Resources, with projects valued at more than \$300 million -

Chartology

The ability for venture capital funds to raise capital improved in 2003, though much of it came from follow-on funds for established organizations on either coast, and it was still at 1996 levels. The line chart shows MI-based venture capital fund commitments, which largely mirror national trends except in 1997 and 2001. Michigan ranked 18th in 2003 and 21st over the last 7 years for capital raising.



MVCA Committee Updates

MVCA Annual Meeting

The first Annual Meeting for the MVCA was held on Tuesday, November 18th at the University of Michigan Business School. There was a strong and diverse group of attendees who had the chance to hear from some active Michigan corporate venture groups. Michelle Drage of Delphi Technologies, Jack Frick of the Van Andel Institute and Peder Danielsen of Dow Chemical each introduced their organizational priorities and what they are looking for in collaborative relationships.

The attendees discussed how to enhance the value of the MVCA to members, and what we could do as an industry to promote the successes and benefits of venture capital in Michigan.

Finally, new members were elected to the MVCA Board of Directors. Congratulations to Jason Burr, Mary Campbell, Jan Garfinkle and Mina Sooch as new members, and thanks for offering your time and talents. We also must recognize Marc Weiser and especially Dick Eidswick as departing Board Members for their contributions to the creation of the MVCA.

Events Committee Update

Raj Kothari and Mina Sooch are teaming up to develop a strategic and valuable event schedule for MVCA members, and there are already a few dates to be penciled into your calendar. On March 18th, the MVCA will be partnering with the Great Lakes Angels at an event in Birmingham. On June 15th, in connection with the Growth Capital Symposium in Ann Arbor, a pre-conference event is also planned. Finally, events are being planned for Grand Rapids in September and Ann Arbor for November/December. More details to come.

Legislative Committee Update

On January 9th, Governor Jennifer Granholm formally signed the Michigan Early Stage Venture Capital Investment Act of 2003, which will provide for the Michigan Early Stage Fund of Funds. This occasion marks a major milestone for the MVCA and the Legislative Committee that has worked so hard to make this a reality. Congratulations and thank you's have already been expressed to Mitch Mondry, Jason Burr, Mahendra Ramsinghani, Scott Stangeland and everyone else that kept this critical legislation on track, but another one is certainly merited.

While the legislation has now been signed, perhaps the even harder work has begun, and the MVCA has aggressively moved to take a leadership role in the next steps in the process toward getting capital available for Michigan venture capitalists.

First was to inform the members of the details of the legislation. Conference calls were arranged for MVCA members to hear about the formal legislation, what it means to each of us, and what next steps are needed. If anyone missed these calls and would like more information, please check the website, or contact Jason Burr.

Second, the Committee is in full action to drive the process ahead. Briefly, the next steps required are the creation and staffing of the MVIC, hiring the fund manager, and recruitment of the investors for the debt instruments that capitalize the fund of funds. The MVIC board consists of 7 members, of which the MVCA selects one. As noted in Mitch Mondry's letter, Prof Tom Kinnear from the University of Michigan has been selected and approved by the MVCA Board. The committee is actively developing a list of candidates and expects to offer up the list which will be presented to the Governor and the Legislature to simplify their process. The committee will also provide as much

assistance as possible in drafting the RFP for a fund manager, and for the recruitment of the investors. The Legislative Committee intend to remove any barriers or delays by providing the resources to get from legislation to venture capital commitments as expeditiously as possible. It is the MVCA's goal to have first commitments possible by the end of 2004.

Membership Committee Updates

The Membership Committee thanks everyone who has responded so proactively to renew their memberships. Our membership fees enable our association to work on the MVIC legislation and this will yield benefits to all by creating new investors and greater deal flow. Through your continued support of our nascent industry in Michigan, the MVCA Board is actively working on a variety of new initiatives and create more value for the members. If you haven't renewed, please do so. If you know of anyone else who may find value in membership, don't hesitate to contact Skip Simms.

Marketing & PR Committee Updates

As an added service to its corporate members, MVCA has established the Venture Capital News Bureau. This news bureau will serve as a tool for corporate members to distribute information about their business and allow them to get immediate, wide spread media distribution.

Corporate members can provide information about their business in the form of news releases, investments, success stories and people. The news bureau will inform media across the state, Midwest and nation about the site and seek to drive media to the bureau for information relating to members' businesses and the developments of all MVCA members.

The news bureau is a way for members to get more coverage with less effort. With the help of Eiler Communications, members can submit their news to Eiler account executive Jessica Annaloro (jessica@eilerpr.com) who will edit and distribute members' news through the news bureau.

Members can also explore arrangements with Eiler Communications for additional PR services such as counsel, ideas, writing and media placements for a discounted fee.

Board of Directors	
Mitchell Mondry, President	M Group
Skip Simms, Vice President	Ralph Wilson Equity Fund Chair: Membership
Jason Burr, Treasurer	Arbor Partners Chair: Legislative
David Brophy	U of M Business School
Mary Campbell	EDF Ventures
Jan Garfinkle	Arboretum Ventures
Raj Kothari	Seneca Capital Partners Chair: Events
Birgit Klohs	The Right Place Program
Mark McCammon	Strength Capital Partners
John McIlwraith	Blue Chip Venture Co.
Peter Pinter	DTE Energy
Jim Plonka	Dow Chemical Corp
Jeff Sloan	Sloan Ventures
Mina Sooch	Apjohn Ventures Chair: Outreach
Sam Valenti	Valenti Capital
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Larry Eiler	Eiler Communications Chair - Marketing & PR

Member News & Notes

GOVERNOR ANNOUNCES VENTURE CAPITAL ACCESS IN STATE OF STATE ADDRESS

For those of who listened to the Governor's State of the State Address, you may have wondered about the makeup of the nearly \$500 million in additional venture capital for the state. Mahendra Ramsinghani of the MEDC provided some clarification. \$150 million is from the MVIC sponsored fund of funds. Second is a SBIR Match program from the Technology Tri-Corridor, through which the TTC would match any SBIR grant with an additional \$15,000. Third is \$30 million Business Loan program expected to launch in July 2004, and be available for gap financing of fixed assets and working capital. The program would focus on small to mid-sized growth companies and companies in industrial base sectors such as manufacturing and automotive. Both the SBIR Match program and the Business Loan program are still being developed so stay tuned.

SENECA PARTNERS COMPLETES INITIAL CLOSE OF ITS HEALTHCARE VENTURE CAPITAL FUND.

Seneca Partners Inc. announced the initial closing of its healthcare venture capital fund, Seneca Health Partners LP I. The firm is now reviewing investment opportunities for the fund. It anticipates completing its first investment by the end of the second quarter. Seneca's key principals include Mr. Michael Skaff, Rajesh Kothari, Anthony Zambelli and Thomas Cox. The firm plans to concentrate its investment focus on commercially successful healthcare and life science companies located in Middle America. These markets are burgeoning with both successful established and emerging healthcare companies, but they lack the capital necessary to help them grow faster.

BIOSTAR STARTS NEW MICHIGAN LIFE SCIENCES FUND

Michigan has a new venture firm, focused on early stage medical device businesses. BioStar Private Equity L.L.C., based in Saginaw, announced the closing of its debut fund at \$6.2 million. The company said it will look for investments in new imaging systems, minimally invasive therapies, cardiovascular pharmaceuticals, medical data management companies and more. The firm's three managers are Louis A. Cannon, the founding president of the Michigan Cardiovascular Institute; Michael Henson, a veteran California life sciences investment manager; and John Lonergan, a veteran life sciences start-up executive. The fund will have offices in Michigan and California. More at www.biostarfund.com

ASTERAND RAISES \$4.6 MILLION

Asterand Inc., the Detroit-based human tissue research bank, raised \$4.6 million in a Series C round of preferred stock. New investors Apjohn Ventures, Arboretum Partners and Chrysalis Ventures of Louisville, Ky., joined earlier investors Oxford Bioscience Partners of Boston and Fort Washington Capital Partners of Cincinnati. Asterand is a specialized distribution company serving the drug discovery market. It was founded in 2000 by Randal Charlton, now its CEO, and Alan Walton, a general partner at Oxford Bioscience Partners, to address the need for high quality biological information and materials by genomics and proteomics researchers. Today, Asterand operates one of the world's largest human tissue banks in the industry, providing critical information on disease targets, including many types of cancer, cardiovascular disease, diabetes, arthritis,

Alzheimer's disease, schizophrenia and bipolar disorder. The company is now dealing with eight of the world's top 15 pharmaceutical companies.

ESPERION THERAPEUTICS ACQUIRED BY PFIZER

On December 21st, Pfizer announced plans to acquire Esperion Therapeutics in an all cash transaction effectively valuing Esperion at \$1.3 billion, which was a premium of 54% to the recent closing prices for Esperion stock. As part of the agreement, Esperion will operate as a division of the Pfizer Global Research and Development organization, and remain in Ann Arbor.

Esperion Therapeutics brings a novel approach to the emerging area of HDL Therapy and reverse lipid transport for the acute treatment of cardiovascular disease. Recently, Esperion published positive Phase II results on a biopharmaceutical compound (ETC-216) that showed a statistically significant reduction in plaque volume in patients with acute coronary syndrome at the end of six weeks. Esperion also has a second biopharmaceutical compound, ETC-588, in Phase II and a number of early-stage compounds.

Esperion Therapeutics was funded in part by Avalon Investments, which was a predecessor to Ardesta.

U-M TECH TRANSFER ACTIVITY INCREASES IN 2003

The number of new technologies, licensing agreements and business startups increased at the University of Michigan last year, according to the UM Office of Technology Transfer's 2003 annual report. The report showed 257 new invention discoveries from UM researchers, up 8 percent from the previous year; 76 new licensing agreements with corporate partners, up 25 percent; and \$9.1 million in licensing revenues, up a strong 60 percent. In addition, the university reported nine new business startups launched with UM technologies last year, bringing the total over the past five years to 36. More than 80 percent of these companies are still in operation and more than 75 percent are headquartered in Michigan. Examples include FluMist, an inhaled flu vaccine, Intralase, a company that applies advanced laser technology to laser eye surgery, and Interlink Networks which applies security networking technology for wired and wireless applications. More information at www.techtransfer.umich.edu.

RUBICON GENOMICS LAUNCHES GENE AMPLIFICATION KITS

Ann Arbor-based Rubicon Genomics Inc. announced during the 4th quarter the launch of its GenomePlex whole genome amplification kit for the research market. Rubicon has developed a method to take very small amounts of genomic DNA and multiply the quantity so that laboratories can efficiently run DNA analysis on it. Rubicon provides whole genome amplification as both a kit and a service, depending on the specific needs of the customer. GenomePlex has numerous applications for markets ranging from drug discovery and development to criminal justice. More at www.rubicongenomics.com.

NANO BIO GETS \$3.2 MILLION DEFENSE CONTRACT:

Ann Arbor-based NanoBio Corp. received a \$3.2 million contract from the federal Department of Defense and will use the money to continue developing antimicrobial nanoemulsions. The emulsions use tiny particles (that's the "nano" part) to provide more effective cleaning and disinfection of surfaces, and have unique and advanced properties for drug delivery as well. Applications of interest to the Defense Department include the

decontamination of infectious agents on people and the prevention of disease following a bioterror attack. NanoBio is also investigating purely civilian uses. Its first product, a treatment for cold sores, has been approved to begin a Phase II clinical trial in March. Trials will begin in June on a topical treatment for nail fungus. More at www.nanobio.com.

GENE GO APPOINTS NEW ADVISORY BOARD MEMBER:

St. Joseph-based GeneGo Inc. appointed Charles R. Cantor, Ph.D., to its scientific advisory board. Cantor is the author of more than 360 scientific articles and the first textbook on genomics and the holder of 54 patents. He is currently chief scientific officer and board member of Sequenom Inc. and is director of the Center for Advanced Biotechnology at Boston University. GeneGo is developing computational platforms for the biotech industry. Its first product, MetaCore, assists scientists in target selection and validation, identification of biomarkers for disease states and toxicology. More at www.genego.com.

STM POWER RECEIVES \$22 MILLION IN VC

Scio Township based STM Power Inc., a maker of external combustion engines used to generate electricity, received \$22 million in funding in January, according to reports. The funding followed some difficult times for the company, which was near bankruptcy and had laid off most of its employees. Twenty-nine employees have since been called back, the story said. The new investors are VantagePoint Venture Partners of San Bruno, Calif., Smart Technology Ventures of Los Angeles, Sempra Energy of San Diego and CDP Capital of Montreal. More at www.stmpower.com.

NUCLEICO LAUNCHED IN ANN ARBOR

The Michigan Life Science Corridor's Catalyst Fund, managed by Birmingham-based Sloan Ventures, announced a \$210,000 funding of Nucleico L.L.C. (www.nucleico.com), a new Ann Arbor biotech company. The company's Spanscript DNA probe technology has several advantages over the current state of the art: it allows researchers to identify a set of genes that is different between healthy and disease conditions where gene sequence information is incomplete or unavailable, and produces gene sets more quickly. The company's product line is based on technology first developed at Genomic Solutions Inc. Nucleico was founded by pharmaceutical veterans Michael Kane, a former executive at Genomic Solutions, Pfizer Inc. and Abbott Laboratories, and Aaron Nagel, also a former exec at Genomic Solutions, along with the efforts of Northville tech attorney Gary Kendra.

DTE TO DEVELOP NEXTENERGY MICROGRID

Farmington Hills-based DTE Energy Technologies, a subsidiary of DTE Energy (NYSE: DTE), has signed a \$5.4 million contract to develop, build, operate and maintain a "microgrid" at NextEnergy's headquarters in Detroit. The microgrid will be powered by hydrogen, natural gas and sunlight, and will include the use of fuel cells, internal and external combustion engines, miniturbine technology and photovoltaic cells. It will also include underground electrical and thermal distribution systems to provide power, heat and cooling to the NextEnergy Center. It will also be capable of providing the broader energy needs of buildings planned for "Tech Town," the research and technology park under development on the north side of Wayne State University's campus. The project is to be completed by December 2004. More at www.dtetech.com.

EDF ANNOUNCES RESULTS FROM 2003

EDF Ventures announced they made nine portfolio investments totaling \$6.6 million in 2003. All were technology companies. The investment total is up from last year's \$5.8 million. Also, EDF said two of its portfolio companies were acquired during the year: Avail Networks Inc. was acquired by Eastern Research Inc., and Health Care Solutions was acquired by Lincare Holdings Inc. (Nasdaq: LNCR). EDF investments this year included Madison, Wis.-based Alfalight Inc., developer of high-powered laser products; Ann Arbor-based microsystems industry accelerator Ardesta L.L.C.; San Francisco-based Arxan Technologies Inc., which develops software tampering and piracy prevention products; Avail Networks, which develops broadband equipment; Entivity Inc. of Ann Arbor, a manufacturing and distribution software developer; Xtera Communications Inc. of Allen, Texas, developer of telecommunications support products and services; and Zyray Wireless Inc. of San Diego, Calif., a builder of wireless semiconductor chips. EDF also during the year added partner Mike DeVries, a health care investing specialist, and "entrepreneur in residence" Bill Wood, who's now serving as interim CEO of HandyLab Inc., a developer of DNA-based testing devices for human diseases, a company based on University of Michigan technology. More at www.edfvc.com.

TAL MATERIALS ANNOUNCES GRANTS FOR NANOPOWDER RESEARCH

Ann Arbor based TAL Materials Inc. announced that it had received two government research grants. One is from the Department of Energy, and is \$200,000 over two years. It's intended to develop advanced phosphors in a nanoparticle form to enable new optical properties for next-generation lighting products, a number of commercial opportunities. The other is a \$100,000, six-month grant from the National Institutes of Health's National Institute of Aging. It covers research on building medical prosthetic devices from nanopowders, including next-generation, all-ceramic prosthetics such as artificial knee and hip joints. TAL was founded in 1996 as a spin-off from the Material Science and Engineering Department at the University of Michigan's College of Engineering. More at www.talmaterials.com

INTERLINK NETWORKS IN NEW PARTNERSHIP

Ann Arbor-based Interlink Networks Inc. announced a new partnership with Trapeze Networks Inc. of Pleasanton, Calif. Under the partnership, the two companies will recommend each other's software to customers when appropriate. Interlink offers authentication, authorization and accounting software for wireless and wired networks that lets in the proper people, gives them the proper level of access and keeps track of what they do. Trapeze Networks offers a product called the Mobility System that includes several products that deliver business applications wirelessly in work spaces, at a low price and with a lot of flexibility. More at www.interlinknetworks.com.

FDA OK'S XORAN MINI CAT SCAN

The FDA approved Ann Arbor based Xoran Technologie's MiniCat CAT scan, and the company says it already has five orders. Xoran is a past winner in the Great Lakes Entrepreneur's Quest. The "MiniCat" revolves around a seated patient, resolving the problem of claustrophobia among some patients in traditional CAT scan machines.

VELCURA ADDS TO MANAGEMENT

Ann Arbor-based Velcura Therapeutics Inc. named Daniel Chagnovich as senior scientist in bioinformatics. Chagnovich most recently worked at Pfizer's global research and development center in Ann Arbor as a scientist in the molecular technologies group, where he spent two years in bioinformatics support for cardiovascular and proteomic research. He has extensive experience evaluating the human genome using bioinformatic tools, and has identified novel genes - one of which is in the patent application portfolio at Pfizer. More at www.velcura.com.

HEALTH MEDIA RECEIVES SBIR PHASE I

Ann Arbor-based HealthMedia Inc. received a \$99,118 Phase I SBIR grant through the National Cancer Institute to develop a user-navigated Web-based weight management program, based in part on HealthMedia Balance, a commercially available program. The research is considered critical because obesity accounts for \$100 billion a year in excess health care spending a year in the United States, and more than 60 percent of American adults are overweight or obese. HealthMedia plans to submit for a Phase II SBIR grant in 2004 to compare the effectiveness of the user-navigated program with Balance, its expert-tailored program. HealthMedia develops a variety of custom tailored online and offline health care improvement programs, and is based on University of Michigan research.

MICHIGAN CHAMBER LAUNCHES NEW JOBS BOARD

The Michigan Chamber of Commerce introduced www.michigan-talent.com, a job board with the aim of keeping Michigan-trained talent in the state. The system also includes 20 Michigan colleges and universities, who will promote the companion Web sites www.college-talent.com and www.university-talent.com to students and alumni. The state chamber, meanwhile, will offer its members posting job opportunities and searching through the talent ranks of michigan-talent.com at no cost.

KALAMAZOO START-UP CEE TOX HITS THE GROUND RUNNING

CeeTox Inc., founded by Jim McKim and a team of four other scientists formerly of Pfizer, has completed the buildout of its 2,500-square-foot lab in the Southwest Michigan Innovation Center and has begun working with eight clients. The contract research firm is focused on toxicity screening of potential drug candidates. CeeTox received \$200,000 from the MEDC and another \$275,000 from angel investors to get off the ground, as well as equipment and other technology from Pfizer. The company plans to have 50 employees within three years.

NORTH COAST INVESTS IN OHIO BASED EXCERA MATERIALS .

Excera Materials received \$1.0 million in funding from North Coast Venture Partners, as well as Reservoir Ventures, Early Stage Partners, and First Fifty Validation Fund. Excera Materials Group's solution for the rapidly growing ballistic armor market is ONNEX, a patented composite material that blends ceramics and metals to give users a product that is simultaneously high-strength, tough, light-weight and stiff. ONNEX, which is based on research conducted at The Ohio State University, can be tailored to meet specific customer demands for strength, hardness, density, complex dimensions and thermal and wear resistance, as well as for electrical and thermal conductivity, at a cost that is comparable to more traditional materials.

WHITE PINES VENTURES ANNOUNCES TRANSACTIONS

White Pines and its affiliates announced two transactions. White Pines provided \$1.65 million in subordinated debt to support the acquisition of Plasma Coatings, Inc. by the American Roller Company. American Roller Company is a leading provider of roller recovery products and services supplying elastomeric, ceramic and specialty coated rollers to the converting, metals, graphic arts and business/office machines industries. Plasma Coatings, Inc. specializes in the application of custom high-release, low-friction coatings to the converting, paper and rubber industries.

White Pines provided \$1.2 million in sub debt to Automotive Franchise Systems for their acquisition of AutoQual. Automotive Franchise Systems, L.L.C. is a leading franchisor pursuing a multi-brand strategy focused on the automotive aftermarket appearance and protection market. AutoQual USA, Inc. sells mobilefranchises that offer carpet cleaning, dyeing, repair services and floor mats to new and used car dealers.

UM RESEARCHERS WORK WITH FLORIDA COMPANY ON LUPUS, ARTHRITIS TREATMENT

Two University of Michigan professors will collaborate with a biotech company on possible new treatments for lupus, arthritis, psoriasis and some forms of cancer under an agreement announced Thursday. GMP Immunotherapies Inc. of Ft. Lauderdale, Fla. said it had signed an exclusive patent license and sponsored research agreement with UM on the technology. Doing the work will be Gary Glick, the Werner E. Bachmann Professor of Chemistry at UM, and Anthony Opipari, M.D., assistant professor of obstetrics and gynecology at the UM Medical School. The technology, developed at UM, uses chemical cousins of benzodazepines, originally developed as tranquilizers, causes cell death, or apoptosis, in immune cells that control disease processes -- cells that are activated that shouldn't be. Under the agreement, GMP has licensed the technology from UM for commercial applications worldwide, and will provide UM with research funding, license fees, research milestone payments and royalties, based on the success of the drug candidates. Lupus is a widespread and chronic autoimmune disease that for unknown reasons causes the body's immune system to attack the body's own tissues and organs. It's the second such agreement between UM and GMP.

NANOTECHNOLOGY INVESTING GROWS

Investments into nanotechnology related companies grew in the 3rd quarter, albeit at a very cautionary pace. According to Small Times Media research, there were investments of \$261 million into 27 small tech companies in the 3rd Quarter of 2003. That is up slightly from \$242 million in the 2nd Quarter when 23 deals were completed. Investments in nanotechnology were also a greater percentage of total venture capital, increasing to 6.2 percent from 5.6 percent in the 2nd Quarter. Investments were quite heavily weighted toward biotechnology companies, where 9 of the 27 deals occurred securing \$103 million or nearly 40% of the dollars. Networking & Equipment had the second most deals, followed by Semiconductors and then Electronics/Instrumentation.