



Letter from the President

MVCA Members,

What exactly ARE we trying to accomplish? That question is often asked by people to whom we introduce the MVCA, and even occasionally by those who are members of the Association. It's a fair question, and one we need to be able to answer clearly if we are to be effective.

Perhaps the best way to answer the question is by sharing with you the 2005 Operating Plan that was approved by the Board of Directors. Since its founding, the purpose of the MVCA is to foster a healthy and successful environment for private equity/venture capital and entrepreneurial communities in the State of Michigan. Our objectives are to provide services, events, and information of value to our members that will promote their success in sourcing deals, raising capital, and educating themselves on issues pertinent to the VC industry. We will act as the unified voice of the venture capital industry in Michigan when working with the rest of the business, corporate, and legislative communities.

In 2005 we plan to accomplish the following:

- As an Association, we will grow and build the value of the network; improve the quality of deal flow to members; and create and attract more capital to Michigan.
- Our Legislative efforts will be to lend assistance to the Angel legislative initiative; lead the effort to modify franchise fees for Michigan tech start-ups; monitor the legislative environment in Lansing and report this to our members; continue to act as the private sector monitor on the Venture Michigan Fund; and position the MVCA as the subject matter expert on VC or start-up activity.
- Our events plans include hosting three independent events around the state, with each event fostering to the goals of the Association; and hosting one event with another venture capital association from out of state.
- Our marketing and PR efforts will include broadening the scope of the MVCA News Bureau to get the word out of successes and activity in Michigan; educate legislators, corporations and foundations about the contribution VC has on the economic growth of our community; and target specific journalists in various geographic segments of the state to become advocates for and experts in venture capital; publish a quarterly newsletter to inform people of the activities of MVCA members and our portfolio companies.
- Our membership goals are to add five new members; retain over 90% of current members; publish a member directory; and explore the value of the directory as a means to raise sponsorship dollars.
- Our outreach activities will be geared to network with 6-8 target communities and educate them about VC activity, the MVCA and start-up successes in our region. These communities include: the Angel community; Entrepreneurial community; out-of-state VC's, and in-state limited partners.

We have an aggressive agenda. We welcome your assistance to achieve these goals and more, and to continue to build the value and knowledge of our Association.

Sincerely,
Mitchell Mondry

Did you know?

"Valuations of U.S. venture-backed companies rose to \$13 million in 2004. This is the highest overall median premoney valuation since 2001, and an increase from the \$10 million annual median posted for 2003."

- *VentureOne*

Legislative Committee Update

In an ongoing effort to assist angel investors in Michigan's technology sector, the legislative committee is collaborating with Sen. Mike Bishop to pass new legislation. Currently under review by the State Senate, the bill would provide a contingent tax credit for angel investors.

Legislative committee members are also optimistic about Gov. Jennifer Granholm's proposal to create a \$2 billion bond which would promote entrepreneurship and assist Michigan's high tech sector. Details of the proposal are expected to be released in April, and the committee will keep members informed of its progress.

Finally, the Department of Labor and Economic Growth is no longer turning a blind eye to venture capitalist firms who do not register as investment advisors in the state. Members with experience or opinions on the matter are asked to contact Jason Burr (jburr@arborpartners.com) or Iris Linder (ilinder@fraserlawfirm.com).

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EDF VENTURES ANNOUNCES

ZYRAY WIRELESS ACQUISITION

EDF Ventures announced that Zyray Wireless, Inc., one of its portfolio companies, was acquired by Broadcom Corp. in a transaction valued at \$98 million. EDF was a founding investor in Zyray in 2001, and has since invested a total of \$5.2 million. Zyray develops semiconductor products for mobile devices, while Broadcom is a provider of integrated semiconductor solutions, enabling broadband communications. The terms of the agreement require Broadcom to issue or reserve for insurance approximately 2.23 million shares of its Class A common stock in exchange for all outstanding shares of Zyray stock. The transaction is expected to close by the end of Sept.

INDIGO SECURITY MERGES WITH TABULUS

In response to consumer demand for a more comprehensive solution to personal information protection, Tabulus, Inc. acquired Ann Arbor based Indigo Security L.L.C., a developer of products which prohibit the disclosure of confidential information. As a result of the acquisition, Tabulus will now offer a comprehensive security solution for protecting confidential information, the Tabulus Content Alarm. Indigo employees have been relocated to Tabulus' headquarters in San Mateo, California.

STROY APPOINTED CEO OF AFMEDICA

Gary H. Stroy, often referred to as the "father of personal glucose monitoring," was appointed CEO of Kalamazoo based Afmedica, Inc. Stroy was the co-founder of seven medical companies, has served as a partner with several first tier Silicon Valley venture capital firms, and was a founder of Johnson and Johnson Inc.'s LifeScan division, where he conceived the first pocket-size portable glucose testing device. Afmedica is a private company founded in 2002 whose investors include individuals, Apjohn Ventures, and TGap Ventures. The life-science company focuses on products designed to prevent cardiovascular complications that frequently occur after surgery.

MICHIGAN ANGELS GROUPS TO HOST INFORMATIONAL SEMINAR ON ANGEL INVESTING

The Great Lakes Angels will collaborate with the Ann Arbor Angels and the Grand Angels to host an informational seminar titled, "The Power of Angel Investing" on May 18 at the VistaTech Conference Center at Schoolcraft College in Livonia. The seminar, which is open only to angel investors, will include presentations, case studies and panel discussions on several aspects of angel investing. To register, contact David Weaver at (248) 540-3758 or dweaver@glangels.org.

MVCA, HARVARD AND STANFORD CLUBS TO HOST ENTREPRENEURSHIP CONFERENCE

The MVCA, Harvard Business School (HBS) Club of Michigan and the Stanford GSB Club of Michigan will co-host a panel discussion on April 13 which highlights local entrepreneurs and their perspectives on starting and growing their ventures. The event will take place at Schoolcraft College's Vista Tech Center located at Seven Mile Road and Haggerty Road in Livonia. Panelists such as Dwight Carlson, founder and CEO of Coherix; Randal Charlton, Founder and CEO of Asterand; David Johnson, chairman of Victor International Corporation; and Lindsay Aspergren, founding partner of Aspergren Ventures, will discuss how they started their venture, pitfalls that occurred along the way as well as lessons learned. A Q&A session and discussion on how to improve entrepreneurship in Michigan will follow the panel.

Registration and networking over light snacks and refreshments begins at 5:30 p.m. with program starting at 6:30 p.m. The cost is free to members of the hosting organizations as well as other local business school clubs and current students, and \$20 for guests. Seating is limited and the **reservation deadline is Monday, April 11, 2005**. For more information, directions or to RSVP, please contact HBS Club of Michigan administrator Judith Skiff at 248-446-8799 or email, jskiff@cablespeed.com. Registration is available online at www.hbsmi.org.

2005 MICHIGAN GROWTH CAPITAL SYMPOSIUM ANNOUNCES CALL FOR PRESENTING COMPANIES

The 2005 Michigan Growth Capital Symposium (MGCS), hosted by the Center for Venture Capital and Private Equity Finance at the University of Michigan Ross School of Business, announced it is seeking companies to present at the Symposium. MGCS will be held on June 15-16, 2005 at the University of Michigan Ross School of Business in Ann Arbor, Mich.

The MGCS once again seeks to identify and encourage top life science and information technology companies to apply for the 2005 Symposium as potential presenting companies. The MGCS is the country's longest-running growth capital symposium and delivers some of the Midwest's and national VC, corporate, and angel investors hungry for new deals. Fundable companies with plans to close their next round within 12 months should submit a maximum four-page executive summary for an opportunity to be included in one of 32 presenting slots.

Once submitted, a select team of experts score the executive summaries and choose a carefully

screened group of presenting companies that in the past have represented industries ranging from information technology, life sciences, alternative energy and nanotechnology. Each selected company will be awarded an opportunity to deliver a 10-minute presentation for an elite audience of venture capitalists, angel investors and institutional investors.

Deadline to submit executive summaries is Friday, April 15, 2005. For more information, registration or to submit an executive summary, visit www.MichiganGCS.com. Sponsorship opportunities are available.

BOOST YOUR PUBLICITY

Mitechnews.Com wants to give members of the Michigan Venture Capital Association publicity on their latest investments and newest funds. The technology and entrepreneurial portal site (www.mitechnews.com) also wants to profile Michigan Venture Capital and Angel companies so that entrepreneurs in the state know which firms to turn to when they have a hot business plan.

Mitechnews.Com added an Entrepreneur's Corner section on its web site last fall for its 30,000 plus unique monthly visitors. Entrepreneur's Corner also includes a monthly (soon to be twice monthly) eNewsletter that goes to 22,000 plus subscribers. The eNewsletter includes Venture Capital and Angel Investing sections.

So if your firm is making news, or is just looking to raise your profile among entrepreneurs to help improve your deal flow, tell Editor & Publisher Mike Brennan your story. You can contact him via email at Brennan@mitechnews.com or telephone him in Grand Rapids at (616) 774-8025.

Don't forget...

MVCA corporate members are eligible to participate in the news bureau, a service that allows them to distribute information about their business to gain immediate, wide spread media distribution.

With the help of Eiler Communications, members can submit their news to Eiler senior account executive Jessica Annaloro (jessica@eilerpr.com) who will edit and distribute members' news through the news bureau.

Member News & Notes (cont.)

GRAND ANGELS INVEST IN BIOPHARM

Members of the Grand Angels recently made their third investment, selecting a Kalamazoo based biopharmaceutical company. ProNAi, Therapeutics, Inc. focuses on the development of Nucleic Acid inhibitors, intended for initial use as a combatant of prostate cancer and non-Hodkin's Lymphoma (NHL). Clinical trials are expected to start as early as 2006. The Grand Angels, founded in 2004 by former Grand Bank CEO Charles C. Stoddart, join the Apjohn Group and Apjohn Ventures on the list of ProNAi's investors.

National News

TOP DRAWER FUNDS COME AT A PRICE

Following the tech meltdown, there was much discussion in the venture capital market about general partners yielding ground on key terms – and in particular on the two key drivers to GP compensation: carried interest and management fees. But both appear to have withstood the turmoil of absenting IRRs. Take carry, for instance, the mother of all terms: what GP group is willing to work for a 15 percent cut of the proceeds? (Some may answer: a desperate one.)

In this context, it is especially noteworthy to hear that some of the US venture funds currently in the market are asking for carry near or at the levels demanded at the height of the venture investment frenzy of 1999/00, including the return of the fabled 30 percent carry.

According to Tom Beaudoin, a senior fund formation specialist at law firm Wilmer Cutler Pickering Hale and Dorr in Boston, "several" of the venture funds he currently is working with are asking for a 25 percent carry – up from the 20 percent carry of their prior funds. While not yet closed, these funds are "getting very good receptions from investors," says Beaudoin. He does add though that other GP clients have encountered some pushback from certain LPs when proposing an uplift in their share of the profits.

The trend is significant. Says Beaudoin: "For these funds to be able to go out with a 25 percent carry in the PPM and for people not to throw up on it, is a sign that the market has shifted."

To be sure, some of the most highly regarded US venture capital groups never budged from their 25 or even 30 percent slice of the profit cake. But a significant number of groups ranking behind the top tier, especially those that raised first-time funds just before the technology bubble was about to burst, reverted to a proposed 20 percent model in follow-on vehicles.

In some cases, says Beaudoin, a performance-related step-up is built into the formula: should the funds in question perform better than, say, a 30 percent IRR or a cash-on-cash multiple of 2.5 to 3 times, the GPs then see carry step back up to 25 percent or more. (While popular in the US and Israel, such arrangements have not been as prevalent in Europe thus far.)

While the dust has yet to settle on these fundraisings, investors seem willing to give up more for extra performance, even if the performance pales in comparison with the awesome vintages of yesteryear. Notes Beaudoin: "There is an intellectual argument that if you deliver 30 percent IRR, hey, that's pretty good, and clearly in the top decile."

And top decile is what everybody wants. Those deemed capable of delivering it will always be able to charge keenly for access to their funds, both in terms of carried interest and management fee terms.

This principle also applies to the buyout world at the moment. There, many LPs are quietly hoping that a handful of the best-performing LBO groups will up the ante and raise the first \$10 billion buyout funds in history to enable them to go after bigger deals, avoid syndicates and put some blue sky between themselves and the competition.

The only trouble is that on a \$10 billion pool, a standard 1.5 percent management fee translates into a rather obscene amount of money. But again: as long as enough investors are eager to buy into a \$10 billion vehicle from the right GP group, then these confident GPs are unlikely to yield any ground.

Source: PrivateEquityOnline.com

More member benefits

Jason Burr has created some **new benefits** for MVCA members, including:

-A discount on conference call services through Premiere for six cents per minute.

(Contact Michael Edenbaum, MVCA account representative, (866) 264-9949 or michael.edenbaum@premierglobal.com)

-A 10% rebate on hosted email exchange services for all members and portfolio companies through USA.net

(Contact Jason Burr at Jburr@arborpartners.com)

EVERYBODY LOVES VENTURE

It must be that bootstrapping, entrepreneurial DNA, because these venture guys really know how to sell a concept.

Just a couple of years after the end of one of the biggest value-destruction exercises in financial history, and in the face of mounting evidence that only a handful of venture capital funds ever amount to much, the market is awash in new venture capital funds – both from new and established teams – and many of them are having an easy time raising money.

Legal sources that work with venture capital firms, mostly in the US, report a surge in fund formations. According to the NVCA/Thomson Venture Economics, the year 2004 saw 170 funds raise \$17.6 billion - \$3.4 billion more than the previous two years combined.

Terms for many of these funds remain exceedingly GP-friendly. Groups that got 30 percent carry during the boom still get 30 percent. Some managers that got 20 percent carry for their last fund are now asking for 25 percent after certain performance hurdles.

So far this year that resurgence in venture fundraising is showing no signs of slowing. Even brand new funds are raising capital. In Menlo Park, Shasta Ventures, founded by former Battery, Trinity and NEA partners, has closed on \$210 million. Yesterday, Gold Hill Venture Lending Partners announced it raised \$215 million (€164 million) for a debut venture debt fund.

No doubt each fund seeking capital argues a very good justification for doing so – differentiated deal flow, newly acquisitive corporations, and improved technologies. But one can't help but see the demand side of the equation as perhaps being most responsible for the proliferation of funds.

Simply put, there is a massive spillover in demand for venture capital funds. The very best funds are completely booked, and even the lucky LPs who made it in are complaining about how small their respective allocations are. What's an institution with a percentage allocation to venture to do? Look for other funds.

The demand has given new life to venture capitalists who were otherwise marginalised by the tech crash. Take Union Square Ventures, a new firm that reportedly has raised more than \$100 million. Among the firm's founders is Fred Wilson, formerly of Flatiron Partners, a JP Morgan Partners venture affiliate that invested during the Internet boom from 1996 until the summer of 2000, when its offices were shut and investment activities halted.

And like the partners in Shasta Ventures, the demand is creating attractive opportunities for experienced individuals interested in hanging their own shingles.

Indeed, LP money is available for venture capital, but not limitless. Marc Sacks, senior managing director of Mesirow Private Equity Investments in Chicago, says he too has noticed a surge in new venture capital vehicles in the market, but notes that not all of these will "make it through the fire" and reach a final close.

Many of the teams raising capital now have previous funds that are deeply under water. Most of these are first-time funds. With average performance in negative territory, it will be interesting to find out what investors ultimately consider a strong track record among this crowd. If the barrier to entry to the venture capital business is as low as having simply once worked for a venture capital fund, brace yourself for further VC proliferation.

Source: PrivateEquityOnline.com