



Letter from the President

MVCA Members,

“Help us Help YOU!”

That line may sound vaguely familiar. I co-opt it from the movie Jerry Maguire, where sports agent Maguire beseeches his client, wide receiver Rod Tidwell, to help Jerry assist Tidwell to realize his great potential.

The MVCA, your association and in some ways your agent, wants to help you achieve your full potential. And at the same time, we want you to help us achieve our full potential as an association. To that end, we are seeking your feedback on how the MVCA can best help you further your goals.

You have your own business goals and needs to move your company forward. We want to know how we can help you do that. Maybe you would like access to more industry information not currently readily available. Perhaps you would like more access to fundable deal-flow or management candidates for your company or portfolio companies. Possibly you want to be kept informed about trends or legislative initiatives under way. We beseech you to tell us.

Conversely, it is in all our interests to have a strong association, one that has a compelling reason for being, serves its members well, and can grow as the industry and its needs change. As a voice for our collective interests, the Association has already made a significant impact on the future of Michigan as a home for early stage businesses. With the passage of the Act creating the Michigan Venture Investment Corporation, the MVCA potentially increased the amount of early stage capital available by \$150 million plus. State legislators in Lansing now call regularly on the MVCA to provide guidance on what actions our government can take to improve the environment for business growth.

Through our many outreach events, our Association is also creating more awareness and understanding of the importance of our industry to the State and is forging new partners and friends.

We are having an impact and we are doing the right things. We want to expand on our progress and make a bigger impact on our members and our community. We will be asking you in the next few weeks for your guidance and ideas. Please take the time to respond. Your participation will truly “Help us Help YOU”.

Sincerely,

Mitch Mondry

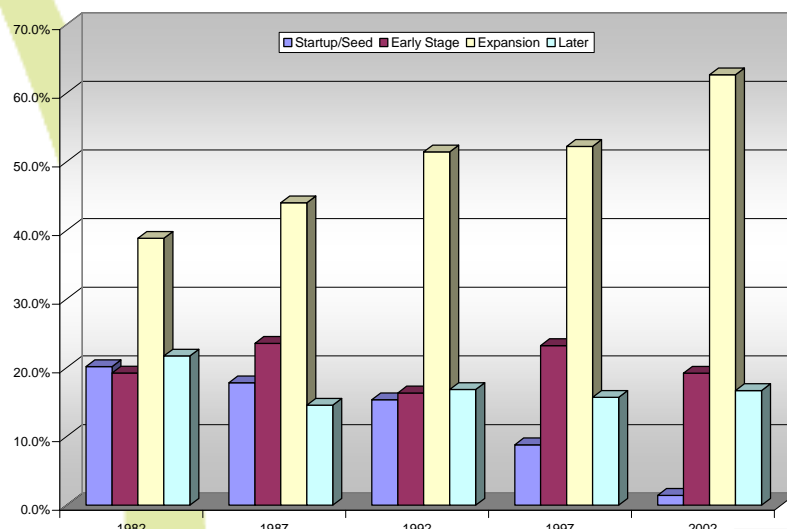
Did You Know?

UM Growth Capital Symposium is one of the longest running private equity conferences in the country, now in its 23rd year.

Chartology

Seed and Early stage venture financing has dropped dramatically, illustrating the value the MI Early Stage Fund can have in MI, and possibly highlighting a changing venture capital industry as a whole. As venture capital firms move toward later stage investments and the industry becomes more formalized, what does that mean for the critical early stages of company creation and the capital required at that point?

Venture Capital Investing by Stage



Source: 2003 NVCA Yearbook, Sloan Ventures

MVCA Committee Updates

MVCA Sponsors Growth Capital Symposium

The 23rd Annual Growth Capital Symposium will take place in Ann Arbor on June 14 – 16. The MVCA has taken a very active role to help develop the agenda as well as to sponsor the event. The Events Committee Update below provides more details on what the MVCA has arranged in concert with the Symposium. We look forward to seeing as many MVCA members at the event as possible. There is still time to register.

The 2004 Growth Capital Symposium has announced its full agenda and again is bringing together a nationally respected group of panelists and speakers. The event features 32 presentations from carefully screened companies in information technology, life sciences, nanotechnology, and alternative energy. The keynote speakers are Promod Haque, managing partner of Norwest Venture Partners, the No. 1 venture capitalist on the Forbes 2004 Midas List, and Jay Hoag, general partner at Technology Crossover Ventures, ranked No. 26 on the list. Panelists include NVCA president Mark Heesen, Kelly Williams of Credit Suisse First Boston; Tracy Lefteroff of PricewaterhouseCoopers; Sam Valenti, Michigan Capital Partners; and David Cassak of Windhover Information. Other national figures who will be discussing the fund raising environment are Bon French, Adams Street Partners; Don Phillips, WestAM; Tim Recker, State of the Michigan Employees Retirement System; Erik Lundberg, University of Michigan Endowment Fund; Charles Froland, GM Investment Management; and Dan Rosen of Frazier Technology Ventures. Further details on the event are at www.michiganvca.com.

Outreach Committee Update

Since the beginning of the year, the new Outreach committee chaired by Mina Sooch has worked closely with the Events committee to create forums with the goal to increase our VC footprint through networking and educating about VC and MI VC activities around the state.

- On March 18th, Great Lakes Angels and MVCA hosted a dinner and networking event attended by almost 100 angels and VCs with talks from Michigan Treasurer Jay Rising and a panel of VCs.
- On April 6th, a group of VCs presented an introduction to venture capital at the Kalamazoo Venture Tuesday attended by over 100 entrepreneurs.
- On April 23rd, a group of VCs met with a bank consortium of ten regional banks in Kalamazoo organized by Southwest Michigan First.

We are planning several more outreach events throughout the rest of the year starting with a VC networking event with MVCA, MHIN (Midwest Healthcare Investment Network of 30-40 Life Sciences VCs) and Growth Capital Symposium VC attendees in Ann Arbor on June 14th; in Grand Rapids with the Right Place on Sept 8th in conjunction with a MVCA meeting, and one more still to be finalized with other Angel groups, the Foundations, and the entrepreneurial organizations (MichBio, TIE/NEF/Etc).

We encourage participation from our members to champion outreach events. Please contact Mina (mina@apjohnvca.com) if you would like to add a group for the MVCA to 'reach out' to or if you just want to get involved in organizing and speaking on the panels. A special thanks to Raj Kothari, Gail Lindsey, David Weaver, Birgit Klohs, Mahendra Ramsinghani, Kurt Riegger, Tim Petersen, Jason Burr, Mitch Mondry, John Lonergan, and Teri Willey for their help on the outreach events.

Legislative Committee Update

The Governor has signed the venture capital legislation into law, the new entity has been incorporated, and the Legislative Committee has shifted its efforts towards facilitating implementation. The MVCA is participating on the steering committee for the Michigan Venture Investment Corporation (MVIC) and is working to complete the next steps which include the selection of the board and formation of the corporation. Matters are progressing, and the target of having the Fund raising capital by the end of the year is still likely.

Marketing & PR Committee Updates

As an added benefit to MVCA corporate members, the MVCA News Bureau, through the PR services of Eiler Communications, is offering free distribution of your company's business news in the form of press releases, investments, success stories and people.

Eiler Communications assists corporate members in editing their releases and then distributes the information to media across the state, Midwest and nation to publications including VentureWire, PrivateEquityOnline.com, Investor Access, The Street.com, The Daily Deal, Wall Street Journal, New York Times, and San Jose Mercury News. The releases are posted on the MVCA web site and distributed to all MVCA members through an email blast. Recent placements about the MVCA and its members have appeared in Detroit Free Press, Venture Wire, PrivateEquityOnline.com, CBS MarketWatch, Business Direct Weekly, and Great Lakes IT Report.

In addition, the News Bureau will work to establish MVCA corporate members as experts in venture capital and financial services to target media who are working on a story related to those topics. This will be achieved by vigorously maintaining a dialogue of information so that MVCA and its members are continuously top-of-mind to local and trade media. Through the News Bureau, Eiler Communications is always on-hand to answer media questions regarding your company news.

Please take advantage of this opportunity to spread the positive news of Michigan venture capital companies. Submit your news and that of your portfolio companies to Eiler account executive Jessica Annaloro (jessica@eilerpr.com) who will edit and distribute members' news through the News Bureau. The News Bureau is a way for members to get more coverage with less effort and no cost.

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Venture Capital News & Notes

STOCK OPTION EXPENSING PRIORITY #1 WITH NVCA

The National Venture Capital Association is actively seeking support from a broad base of individuals and organizations in its efforts to head off rulings by FASB that would require the expensing of stock options on company income statements. This issue has been well publicized over the last year and the pending rules could have material impacts on many early stage venture capital-backed companies. The NVCA (www.nvca.com) has posted detailed information on their website, and an additional website, www.savestockoptions.org has more information and tools to help send letters to Congress. Please take a few minutes to review these sites, and if you agree with the position, to take action. Due to the importance of this issue to our industry, a portion of the NVCA's release on this topic is being included below:

Background:

On March 31st, FASB released their final Exposure Draft, the Share-Based Payment, and Amendment of FASB Statements No. 123 and 95. As anticipated, it will require that all share-based payments, including employee stock options, be treated as an expense on the income statement. While FASB has been signaling this move for over a year, we believe the [details of the exposure draft](#) clearly demonstrate that FASB has not adequately addressed the flaws in current valuation methodologies, despite over 10 years of consideration.

The FASB proposal is perhaps even worse than we anticipated in its treatment of nonpublic entities. The proposal generally calls for stock options to be expensed at grant date using either the Black-Scholes method or binomial methods, which are widely acknowledged to be problematic when applied to employee options. However, for nonpublic entities, FASB has specifically **disallowed** the current standard (known as minimum value) by which private companies could calculate an option value without the volatility input required for public companies. Now, FASB has determined that if a nonpublic entity decided it could not reasonably estimate the fair value of employee stock options (using Black-Scholes or binomial models), it choose to use a modified "intrinsic value" method. Doing so requires **recalculation of the expense every reporting period creating variable accounting treatment as the stock options are marked-to-market.**

NVCA's View:

We believe the FASB proposal fails on multiple levels. From a purely accounting perspective, the valuation methods proscribed will not result in a better depiction of a company's economic health or more transparent financial statements. On a macroeconomic level, we do not believe that FASB has given any consideration to the negative impact an expensing rule will have on the nation's economy. Further, we believe that the cost of implementing these inaccurate valuation methods will be a much greater burden on startups and nonpublic entities. We believe FASB's proposal if enacted as proposed will ultimately undermine stock options as a tool that has successfully aligned the interests of shareholders with employees and which has been critical in our ability to foster the companies that have driven the nation's economic growth.

M&A ACTIVITY RISES SHARPLY IN Q1 2004

The NVCA and Thomson Venture Economics reported a continuing increase in the number and size of venture backed mergers and acquisitions in the 1st Quarter of 2004. The 1st Quarter was a 75% increase from the 4th Quarter of 2003.

In addition to an increase to 77 transactions compared to 71 in the previous quarter, the disclosed value for the transactions rose to over \$4.0 billion, compared to \$2.3 billion in the 4th Quarter. The last time venture backed M&A activity surpassed \$4.0 billion in value was the 1st Quarter of 2001. This increase in value is also seen in the average size of deals at \$89.6 million compared to \$67.7 million in the prior period.

Software was the largest sector with 23 of the 77 deals, while the combined Medical Devices and Biotechnology saw 12 deals. More information and the press release can be found at either www.nvca.com or www.ventureeconomics.com.

VC INVESTING CONTINUES AT STEADY PACE IN Q1

VC investments totaled \$4.6 billion in the 1st Quarter of 2004, according to the PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree Survey. This compares to \$5.2 billion in the 4th Quarter of 2003 and \$4.2 billion in the 1st Quarter of 2003. Venture capital investing has now remained steady over 7 quarters, with investing ranging between \$4.2 and \$5.2 billion per quarter.

In the 1st Quarter, the Software sector returned to the top spot, as 162 companies received \$956 million. Biotechnology was second with 71 companies and \$943 million. When Biotechnology is combined with Medical Devices, this Life Science sector accounted for 27% of all VC, or \$1.3 billion.

A key area of interest in Michigan is early stage companies, and in that sector the results are a bit disappointing. 158 companies received first time venture funding which was down from 186 companies in the 4th Quarter. As a percentage of all companies reported, first time financings of 26% was about equal to the previous period so the decrease was similar to the entire industry.

PENDING MICHIGAN LEGISLATION TO PROVIDE TAX BREAKS FOR START-UPS

According to an article by Brian Hamilton for Business Direct Weekly, legislation that would provide tax breaks to start-ups is pending the Governor's signature. The bill passed the Michigan Senate on May 13 and awaits Governor Granholm's signature.

Described as a "tax pause on new start-ups" by Senate Majority Leader Ken Sikkema (R-Wyoming), the legislation would affect privately held businesses that spend at least 15 percent of their budget on research, have fewer than 25 full-time employees, have less than \$1 million in sales and register no net income for two years. Those businesses would be exempt from the state's single business tax for the first five years, and, with local approval would be exempt from local property and income taxes.

"Our economic prosperity is not going to come if our single strategy is to capitulate to large firms that want tax abatements just to stay here," Sikkema said. "We need to attract new businesses and create new jobs and those will come from rapidly growing small and medium-sized businesses."

Those businesses, he said, are especially vulnerable during their first five years.

The single business tax in particular, Sikkema said, is harmful because it doesn't take into account whether a business is profitable. It's a value-added tax on a company's products.

Member News & Notes

STONEAGE (CAR.COM) SOLD TO AUTOBYTEL INC.

On May 5th, StoneAge, a portfolio company of M Group (Birmingham) announced its sale to publicly-traded Autobytel, Inc. (Nasdaq: ABTL). In 1999, M Group led the only outside round of funding in StoneAge (aka Car.com), a provider of online customers to car dealers. On April 15th, 2004, Autobytel Inc., a leader in Internet automotive marketing services, completed the acquisition of StoneAge for \$48 million in cash and stock. The acquisition price delivered a substantial return to the M Group investors.

M Group Vice President and former StoneAge Board member, Mitchell Mondry, stated: "We're thrilled with the outcome of our investment in StoneAge and very pleased we were able to provide support and guidance over the past four years that enabled the Company to grow to be one of the leaders in the industry. The challenges we encountered in the technology industry over the past few years make this outcome all the more rewarding."

EDF REPORTED TO SECURE FIRST CLOSE ON FUND IV

Venture Capital Analyst reported that EDF Ventures (Ann Arbor) expects to secure up to \$30 million for a first close of its fourth fund in June. The fund has a \$100 million target. A portion of the capital will come from Indiana Futures Fund I, a \$73 million fund of funds managed by Credit Suisse First Boston, New York. Limited partners in EDF Ventures' \$85 million third fund, which closed in 2000, include Dow Foundation, Michigan State University Foundation and National City Equity Partners. That fund also included funding from the federal Small Business Investment Company program, but EDF Ventures will not be accepting SBIC money for the new fund, according to General Partner Mary L. Campbell.

Ms. Campbell will manage the firm's health care investments along with Partner Michael R. DeVries, a former Medtronic Inc. executive who joined EDF Ventures last year. Partners James A. Adox and Beau D. Laskey will continue investing in IT companies.

GENETICS SQUARED CLOSSES \$1 MILLION FUNDING

Ann Arbor-based Genetics Squared, a three-year-old biotech firm that uses computers and proprietary technology to advance clinical development of new therapies, announced a \$1 million investment from a regional venture capital firm and a private investor. The funding was made by CrystalPoint Partners, an Ann Arbor-based venture capital firm, and a private investor from out of state. "Genetics Squared has a great deal of promise and its customers are excited about its ability to increase the speed at which new drugs are developed," said CrystalPoint's managing director Wassim Mortada. Genetics Squared's technology helps drug companies predict the percentage of people who will respond to new treatments. Genetics Squared CEO John Freshley said the funding will be used to recruit management and new staff, invest in additional technology infrastructure and develop a sales operation for the company.

CMU ENTREPRENEURSHIP PROGRAM NATIONALLY RANKED

Central Michigan University's announced its Entrepreneurship program has been ranked as one of the top 100 in the country in the May issue of Entrepreneur magazine. CMU is listed in the "comprehensive program" category - - offering the widest variety

of resources for students. CMU's program is one of the top 50 regional programs and the only one in Michigan in its category. Entrepreneur magazine ranks the top 100 national and regional entrepreneurship education programs in the United States in categories such as "comprehensive," "entrepreneurship emphasis" or "limited curriculum" programs, after studying and ranking more than 800 entrepreneurship programs.

BRIDGE STREET CAPITAL PARTNERS ANNOUNCES 1ST CLOSE

Bridge Street Capital Partners, LLC ("Bridge Street Capital"), a Grand Rapids-based private investment firm, announced that it has organized and held its first close of Bridge Street Capital Fund I, L.P. with committed capital to date in excess of \$30 million. Bridge Street Capital intends to seek additional commitments of capital over the next several months, with the goal of reaching total commitments of \$75 million.

The investment focus of Bridge Street Capital will be to achieve long-term capital appreciation by making controlling investments in growth-oriented, profitable private companies primarily located in the Great Lakes region. Bridge Street Capital plans to invest capital to support acquisitions, management buyouts, expansion initiatives, recapitalizations, or acquisition growth strategies.

The principals of Bridge Street include its Managing Directors, William F. Kaczynski, Jr. and John J. Meilner. Mr. Kaczynski and Mr. Meilner will also enjoy access to an Executive Committee comprised of 3 additional principals, including Michael Jandernoa, John Kennedy, & George Jackoboice Jr.

AASTROM RECEIVES CANCER GRANT

Ann Arbor-based Aastrom Biosciences Inc. (Nasdaq: ASTM) announced that it had received a Phase I SBIR grant from the National Institutes of Health's National Cancer Institute to develop an immunotherapy treatment for malignant melanoma. The study will use the Aastrom Replicell system to produce therapeutic quantities of T-lymphocytes, or T-cells, from patient tumors or blood for a treatment of melanoma. The company said there are currently few effective therapies for late-stage melanoma. But recent studies at the National Cancer Institute have demonstrated that T-cells derived from the patient's own immune system and expanded in culture can specifically recognize and destroy malignant tumor cells. What's now called "adoptive T-cell therapy" has been shown in small-scale clinical studies to cause measurable reduction of melanoma tumors, including patients with late-stage disease after the cancer has spread to multiple organs. Melanomas occur most often in adults, and frequently spread to nearby lymph nodes or the liver, lungs and brain. The incidence of malignant skin melanomas is rising rapidly in all parts of the world..

ASTERAND USING NEW DNA TECHNOLOGY FROM RUBICON

Asterand (Detroit) is adopting new DNA amplification technology as part of a major international study to investigate the causes and cures for diabetes. The technology will permit scientists to extract genetic information from tiny quantities of human material such as a few cells obtained by donors using a simple mouthwash. It is being employed by Asterand for the first time in Europe this month. The study is in cooperation with Wayne State University and researchers in Europe, according to chief scientific office James Eliason. The technology, known as Whole Genome Amplification, has been developed by Rubicon Genomics (Ann Arbor). Rubicon markets the kit under the trademarked name GenomePlex.