THE MICHIGAN VENTURE CAPITAL REPORT

Building Michigan’s Vibrant Future

2008

Created by the Michigan Venture Capital Association
“Small opportunities are often the beginning of great enterprises.”

—Demosthenes

As Michigan continues to reinvent itself as a technological center for the global economy, it’s establishing creative funding support for companies to get the Upper Hand in emerging and expanding markets.

See how we can help you grow your business. Visit MichiganAdvantage.org.
Dear Friends:

Michigan’s venture capital community is a vital part of our strategy to grow and diversify our economy. Your accomplishments are growing investments across the state and helping to build the emerging companies that offer great promise for all of our citizens.

We are pleased that the 21st Century Jobs Fund has created new channels to build a rich entrepreneurial and investment infrastructure within our state. Your work, along with our public/private collaboration, is helping to transform and diversify our economy. And the research conducted by the Michigan Venture Capital Association is necessary to measure our successes and areas of growth and future need.

We offer our congratulations for the hard work and dedication of the venture capital industry in Michigan this past year. Together, we can promote our great advances and successes as we continue to move Michigan forward toward a strong and healthy economic future.

Sincerely yours,

Jennifer M. Granholm  
Governor

John D. Cherry, Jr.  
Lt. Governor
- Initial Public Offerings
- Mergers and Acquisitions
- Financings
- EDGAR/SEDAR
- eProxy
- XBRL
- Virtual Data Rooms
- Translation Services

DEALMAKERS TURN TO BOWNE FOR SPEED AND ACCURACY AROUND THE WORLD. VISIT BOWNE.COM

BOWNE
610 West Congress
Detroit, Michigan 48226

Jim Garippa
Senior Vice President, Sales
313.463.7112 (o)
248.376.1100 (m)
jim.garippa@bowne.com
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Michigan Venture Capital Association</td>
<td>6</td>
</tr>
<tr>
<td>Executive Summary</td>
<td>9</td>
</tr>
<tr>
<td>Michigan Venture Capital Summary</td>
<td>10</td>
</tr>
<tr>
<td>National Venture Capital and Michigan Fundraising</td>
<td>21</td>
</tr>
<tr>
<td>Michigan Venture Capital Programs</td>
<td>25</td>
</tr>
<tr>
<td>Michigan Venture Capital-Backed Companies</td>
<td>26</td>
</tr>
<tr>
<td>Building Michigan’s Vibrant Future</td>
<td>30</td>
</tr>
<tr>
<td>MVCA Activities</td>
<td>36</td>
</tr>
<tr>
<td>Michigan Venture Capital Directory</td>
<td>40</td>
</tr>
<tr>
<td>Michigan Venture Capital Directory</td>
<td>43</td>
</tr>
</tbody>
</table>
We are a proud supporter of the Michigan Venture Capital Report

At Honigman, our team of venture lawyers is designed to meet all the legal needs of technology-based companies and their funding sources. We’ve helped many companies secure the technology and capital vital to their growth. Our team has structured and negotiated investment and exit transactions for companies and venture capital funds located all over the United States and beyond.

Whether you’re looking to raise capital or deploy it, Honigman has more than just the expertise to provide solid legal advice. Our experience and relationships can help you find the right partner and close the right deal so you can focus on success.

Honigman is proud to sponsor the work of the Michigan Venture Capital Association and help foster the growing venture capital market in Michigan.

For more information, contact David Parsigian at (734) 418-4250 or at dparsigian@honigman.com.

Honigman Miller Schwartz and Cohn LLP
Detroit • Ann Arbor • Lansing • Oakland County • Kalamazoo
www.honigman.com

The herd has lost its direction.

When it comes to advising its venture-backed clients on their cash investments, Capital Advisors Group has never followed the herd. While some brokers and advisors fueled a stampede toward risky investments prior to the credit crisis, Capital Advisors Group instead chose the course of prudent, research-based investment strategies. It’s a practice we’ve employed in the best and worst of market environments in our 18 years in business. If it’s not in your best interest, rest assured, we’ll let you know.

www.capitaladvisors.com Phone: 804.441.6102 Contact Phil Gager, pgager@capitaladvisors.com
Dear Reader,

The year 2008 was notable for industry growth and successes in Michigan. The state increased the amount of capital under management, the amount of venture capital financings, and fundraising successes despite the national economic downturn in the later half of the year. In addition, our community witnessed two highly successful venture capital-backed company exits. Each company intends to remain in Michigan growing high-technology jobs and spinning-off the next generation of business-building entrepreneurs. These are important milestones in Michigan’s venture capital history, and the Michigan Venture Capital Association is pleased to celebrate these successes with you!

As the venture capital industry weathers the economic slowdown, it is more important than ever to remain focused on Michigan’s capital and entrepreneurial talent needs in order to continue the positive momentum. The MVCA is absolutely clear in its mission and objectives, and remains energized to build a sustainable and diversified economy, while becoming a vibrant center of venture capital activity in the Midwest and nationally.

As the MVCA publishes this second annual Michigan Venture Capital Report, we are aware of the value and education it brings. Just a few years ago it was hard to access any centralized data regarding Michigan’s venture capital industry. With the help of the 21st Century Jobs Fund and our award from the Michigan Economic Development Corporation, the MVCA has become the centralized source of industry information. Future Reports will continue to provide vital statistics regarding Michigan’s venture capital landscape, and will continue to educate its readers about the importance of venture capital.

Thank you for your continued support of the Michigan Venture Capital Association!

Very truly yours,

LeAnn Auer  
MVCA Executive Director

Mina Sooch  
MVCA Chairman
The Michigan Venture Capital Association

The MVCA is a non-profit trade organization with the mission to grow and sustain a vibrant venture capital community in Michigan. It brings together industry participants in the state of Michigan and provides a concerted voice for Michigan’s venture capital industry. Our membership includes private venture capital funds, corporate venture capital funds, angel investors, and entrepreneurial infrastructure participants. Currently, the MVCA membership includes over 165 individuals representing over 65 firms.

The Michigan Venture Capital Association will continue to focus its efforts to ensure Michigan has the following:

- Abundant and Accessible Capital
- Abundant and Accessible Talent
- Many Successful Venture Capital-Backed Companies Based in Michigan
- Many Successful Michigan-Based Venture Capital Funds that Invest Both in Michigan and Nationally
# The Michigan Venture Capital Association

**MVCA Board of Directors 2008-2009**

## Executive Committee

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mina Sooch</td>
<td>Chairman</td>
<td>Apjohn/Triathlon Ventures</td>
</tr>
<tr>
<td>Mary Campbell</td>
<td>Vice-Chairman &amp; Past Chairman</td>
<td>EDF Ventures</td>
</tr>
<tr>
<td>Tom Kinnear</td>
<td>Vice-Chairman &amp; Treasurer</td>
<td>University of Michigan Ross School of Business</td>
</tr>
<tr>
<td>LeAnn Auer</td>
<td>Executive Director</td>
<td>MVCA</td>
</tr>
<tr>
<td>J. Michael Bernard</td>
<td>Secretary</td>
<td>Dykema Gossett PLLC</td>
</tr>
<tr>
<td>Michael Finney</td>
<td>Director</td>
<td>Ann Arbor SPARK</td>
</tr>
<tr>
<td>Jan Garfinkle</td>
<td>Director</td>
<td>Arboretum Ventures</td>
</tr>
<tr>
<td>John McIlwraith</td>
<td>Director</td>
<td>Blue Chip Venture Company</td>
</tr>
<tr>
<td>Ron Reed</td>
<td>Director</td>
<td>Seneca Partners</td>
</tr>
<tr>
<td>Chris Rizik</td>
<td>Director</td>
<td>Renaissance Venture Capital Fund</td>
</tr>
<tr>
<td>Don Walker</td>
<td>Director</td>
<td>Arbor Partners</td>
</tr>
</tbody>
</table>
Executive Summary

The 2008 Michigan Venture Capital Report includes key findings from the MVCA Venture Capital Survey and the Michigan Venture Capital-Backed Company Survey. This Report also includes 2008 data gathered from PricewaterhouseCoopers MoneyTree and the National Venture Capital Association. The Report provides important statistics regarding Michigan’s venture capital industry, how we compare on a national level, and data regarding Michigan’s venture capital-backed companies and 2008 financings.

The statistics within this report reflect the steady progress being made in Michigan’s venture capital industry. In 2008, the total amount of venture capital under management among Michigan-based venture funds increased by $100 million to $1 billion, while the amount of venture capital invested in Michigan companies increased by $141 million to $246 million. As result, the number of venture capital-backed companies in Michigan has increased as well.

Despite the steady progress, Michigan is experiencing an imbalance between the small amount of available capital to invest in new opportunities and the increasing number of high-growth companies seeking venture capital. Due to the tightening of macroeconomic conditions in 2008 and 2009, this imbalance has worsened. The total amount of available capital targeted to Michigan companies is approximately $290 million, while the amount of entrepreneurial demand for capital is $1.6 billion. We are at risk of stifling the successful results of the many state-funded initiatives. Building a strong continuum of capital in Michigan is critical now more than ever in order to accelerate our progress and lay a solid foundation for growth over the next 10 to 20 years.

Michigan has the opportunity to build a sustainable, vibrant, diversified economy by fueling the venture capital engine; an engine that has worked well for states such as California, Pennsylvania, Texas, and North Carolina. The MVCA remains committed to this growth and is confident in our collective ability to continue building Michigan’s new economy!
Michigan Venture Capital Summary

Michigan’s Venture Capital Participants

Venture Capital Firms Headquartered in Michigan

Arbor Partners
Arboretum Ventures
Apjohn Ventures
Beringea
BioStar Ventures
Bridge Street Capital Partners
EDF Ventures
North Coast Technology Investors
Oracle Capital Partners
Plymouth Venture Partners
RPM Ventures
Seneca Partners
SWMF Life Science Fund
TGap Ventures
Wolverine Venture Fund

Out-of-State Venture Capital Firms with Michigan Presence & Interest

Blue Chip Venture Company
Chrysalis Ventures
DFJ Portage
Early Stage Partners
Fletcher Spaght
iNetworks
Midwest Venture Partners
Nth Power
Sigvion Capital
Venture Investors

- There are a total of 25 venture firms in Michigan. In 2007, there were 19.
- 15 venture firms are headquartered in Michigan with 43 investment professionals. In 2007, there were also 15 firms with 40 investment professionals.
- Ten out-of-state venture firms have a dedicated investment professional and/or an office in Michigan. In 2007, there were five.

Michigan Angel Networks

Ann Arbor Angels
Blue Water Angels
Capital Community Angels
First Angels
Grand Angels
Great Lakes Angels
Traverse Angels
Michigan Venture Capital Summary

Total Capital

Michigan has a total of $1 billion of venture capital under management among Michigan-based venture funds.

Since 2007, Michigan-based capital under management increased by $100 million.

The total capital under management from Michigan-based venture firms is 38% of the total capital under management.

$530 million, or 20%, of the total capital under management is available for new investment across all geographical, stage, and industry sector strategies.
Michigan Venture Capital Summary

Available Venture Capital Targeted to Michigan

The national average size of one venture capital fund is $144 million. Michigan’s total available capital from private sources across all of Michigan’s venture capital funds is $130 million.

Breakdown of Available Capital Targeted to Michigan Investment Opportunities

- Of the total capital under management in Michigan, only $290 million is available for investment in new portfolio companies in Michigan.
- Michigan’s total available capital includes funds from out-of-state venture firms with a Michigan investment strategy as well as capital from the privately-funded InvestMichigan! Growth Capital Fund.
- Beyond the $130 million available for new investment, there is $90 million among the Michigan-based venture funds reserved for follow-on funding for approximately 30 of their portfolio companies located in Michigan.
Michigan Venture Capital Summary

Venture Capital Fund Sizes

The average venture capital fund size among Michigan venture capital funds is $46 million, 1/3 of the national average.

- Half of Michigan’s venture capital funds are $25M or less in size.
- There are six first-time funds in Michigan, five second-time funds, three third or later funds, and one evergreen fund.

An increase in the number of Michigan-based venture funds with at least $100 million of capital would accelerate entrepreneurial and venture capital growth in the state. Michigan-based venture capital would allow Michigan to more easily attract and retain high-technology companies, build an entrepreneurial talent base, and create the job growth needed in our state.
Michigan Venture Capital Summary

Venture Capital Investment Size

- The preferred investment size among Michigan venture funds is $1 to $3 million.
- Total investments range from $250,000 to $6.5 million, with an average minimum investment of $500,000 and an average maximum investment of $2.7 million.

Average Series A:
$2-$6 million

Average Series B:
$6-$12 million

Average Series C:
$12-$20 million +

The investment size data make a good case for the need for larger venture funds in Michigan. Smaller venture funds have more difficulty leading or substantially participating in larger Series B and C financing rounds. As a result, syndication with out-of-state venture funds is often required, raising the risk that the company may be forced to relocate to another state to obtain sufficient financing to grow.
Out-of-State Venture Capital Firms with Current Michigan Investments

Aisling Capital
Alta Partners
ARCH Development Partners
Atlas Ventures
Aviv Venture Capital
Baird Venture Partners
Battery Ventures
BCE Capital
Bio Fund Ventures
BioMedical Ventures
Catella Healthcare
Clarus Ventures
CMEA Ventures
Concentric Equity Partners
Credit Suisse Group
Domain Associates
Duchossois Technology Partners
Dunrath Capital
Element Partners
Fidelity Biosciences
Flagship Ventures
Foundation Capital
Frazier Healthcare Ventures
H&B Capital
Hercules Technology Growth Capital
Highlander Partners
Hopewell Ventures
InterWest Partners
Investor Growth Capital
Kearny Venture Partners
Khosla Ventures
Lightspeed Venture Partners
Lurie Investments
Menlo Ventures
MPM Capital
Nth Power
Open Prairie Ventures
Orix Capital Corporation
Oxford Biosciences
Pacific Capital
Perseus
Pfizer Strategic Investments Group
Pharos Capital Group
River Cities Capital Fund
Sigvion Capital
Stockwell Capital
T. Rowe Price
Thomas Weisel Venture Partners
TL Ventures
Triathlon Ventures
Twilight Venture Partners
Updata Partners
Venrock
Venture Investors
XR Ventures
Syndication is an important activity for Michigan venture capital funds. With a lack of abundant available capital in Michigan, the connection to outside capital is vital to help companies obtain sufficient capital to grow.

### Michigan Venture Capital Summary

**The Importance of Syndicate Relationships**

#### 2008 Michigan Venture Capital Financings

- **Non-Michigan Contribution to VC Financings**: 70%
- **Michigan’s Contribution to VC Financings**: 30%

#### 2008 Michigan Venture Capital Financings by Sector

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Science</td>
<td>22</td>
</tr>
<tr>
<td>Advanced Materials &amp; Manufacturing</td>
<td>3</td>
</tr>
<tr>
<td>IT</td>
<td>4</td>
</tr>
<tr>
<td>Consumer Products</td>
<td>2</td>
</tr>
<tr>
<td>Alternative Energy</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>33</strong></td>
</tr>
</tbody>
</table>

- Michigan venture capital funds contributed 30% to the total venture capital financings of Michigan-based companies in 2008.
- Two-thirds of the total venture capital financings were received by the life science industry - 12 biotechnology, 8 medical device, and 2 pharmaceutical companies.
Existing venture capital fund managers in Michigan have industry and stage diversification, which are important factors in building a vibrant venture capital community.

Michigan Venture Capital Summary

The Importance of Sector & Stage Diversification

- Most of Michigan’s indigenous venture firms have a strategy to invest in the Life Science, IT, and Advanced Materials & Manufacturing industry sectors.
- Since 2007, more investors have stated an interest in Alternative Energy, Media, and Consumer Products.
Michigan Venture Capital Summary

The Importance of Sector & Stage Diversification

By Investment Stage

Of the total capital deployed among Michigan venture funds, 55% has been allocated to the Growth/Expansion stage, while just over 30% has been allocated to the Start-Up/Early stage of a company’s development.

By Industry Sector

- Michigan venture funds have deployed roughly half of their capital to Life Science companies.
- One-third of the capital is allocated to IT companies.
- The remaining 16% of all Michigan venture capital investment has been made in other industry sectors, such as Advanced Materials & Manufacturing, Business Services, Media, and Consumer Products.
Michigan Investment Spotlight

Seed Stage

Tissue Regeneration Systems (TRS)
Ann Arbor, Michigan

Tissue Regeneration Systems (TRS) is a medical device company spun out of the University of Michigan and the University of Wisconsin. This seed stage company is developing bioactive devices for bone and soft tissue regeneration, with the initial focus on fusion and biologics delivery in the spine ($3 billion market) and cranio-maxillofacial reconstruction ($500 million market). These devices provide stabilization and restoration of natural geometry and are ultimately absorbed by the body as natural bone forms so that no artificial materials are left behind to cause long-term complications.

The company was founded by a five member interdisciplinary team, which includes three researcher/clinicians from the University of Michigan, a professor from the University of Wisconsin, and a venture capital investment professional from the lead venture capital investor firm. The company has received a venture capital seed investment from Venture Investors, a venture firm with offices in Ann Arbor, Michigan and Madison, Wisconsin.

TRS will use its seed financing of $2 million to conduct further development and perform pre-clinical animal trials. The company expects to grow from a team of seven to ten or more over the next 12 months. TRS projects its capital needs to be approximately $30 million, and jobs to grow to over 50 as an exit path is approached.
## National Venture Capital and Michigan

**National Venture Capital Summary Statistics**

### Michigan vs. National Venture Capital Data 2007-2008

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Venture Capital Firms that raised funds in last 8 years</td>
<td>882</td>
<td>1,019</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td>No. of Investment Professionals</td>
<td>7,500</td>
<td>8,890</td>
<td>43</td>
<td>40</td>
</tr>
<tr>
<td>Total Capital Under Management</td>
<td>$197B</td>
<td>$258B</td>
<td>$1B</td>
<td>$900M</td>
</tr>
<tr>
<td>Venture Capital Raised</td>
<td>$28M</td>
<td>$40M</td>
<td>$172M</td>
<td>$110M</td>
</tr>
<tr>
<td>Avg. Venture Capital Under Management per Firm</td>
<td>$224M</td>
<td>$347M</td>
<td>$73M</td>
<td>$69M</td>
</tr>
<tr>
<td>Avg. Venture Capital Fund Size to Date</td>
<td>$144M</td>
<td>$162M</td>
<td>$46M</td>
<td>$40M</td>
</tr>
</tbody>
</table>

Source: NVCA and MVCA

- The average venture capital fund size among Michigan venture capital funds is $46 million, 1/3 of the national average.
- Nationally, Michigan ranks 25th in the amount of venture capital under management. In 2007, our ranking in this category was 21st.
### National Venture Capital and Michigan

**Venture Capital Investments by State in 2008**

<table>
<thead>
<tr>
<th>State</th>
<th>Rank</th>
<th>Year Over Year Rank Change</th>
<th>Number of Companies</th>
<th>Amount Invested ($Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>1</td>
<td>-</td>
<td>1,294</td>
<td>$14,280</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>2</td>
<td>-</td>
<td>346</td>
<td>$2,998</td>
</tr>
<tr>
<td>New York</td>
<td>3</td>
<td>+2</td>
<td>195</td>
<td>$1,299</td>
</tr>
<tr>
<td>Texas</td>
<td>4</td>
<td>-1</td>
<td>124</td>
<td>$1,283</td>
</tr>
<tr>
<td>Washington</td>
<td>5</td>
<td>-1</td>
<td>126</td>
<td>$962</td>
</tr>
<tr>
<td>Colorado</td>
<td>6</td>
<td>+5</td>
<td>78</td>
<td>$817</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>7</td>
<td>-1</td>
<td>152</td>
<td>$701</td>
</tr>
<tr>
<td>Minnesota</td>
<td>9</td>
<td>+6</td>
<td>43</td>
<td>$487</td>
</tr>
<tr>
<td>Illinois</td>
<td>13</td>
<td>-1</td>
<td>57</td>
<td>$445</td>
</tr>
<tr>
<td>Ohio</td>
<td>15</td>
<td>+5</td>
<td>44</td>
<td>$258</td>
</tr>
<tr>
<td><strong>Michigan</strong></td>
<td>16</td>
<td>+9</td>
<td>33</td>
<td><strong>$246</strong></td>
</tr>
<tr>
<td>Indiana</td>
<td>22</td>
<td>+7</td>
<td>13</td>
<td>$132</td>
</tr>
<tr>
<td>Missouri</td>
<td>24</td>
<td>+2</td>
<td>19</td>
<td>$87</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>25</td>
<td>+3</td>
<td>18</td>
<td>$75</td>
</tr>
<tr>
<td>Iowa</td>
<td>31</td>
<td>+11</td>
<td>4</td>
<td>$40</td>
</tr>
<tr>
<td>Kentucky</td>
<td>35</td>
<td>-13</td>
<td>10</td>
<td>$30</td>
</tr>
</tbody>
</table>

*Source: NVCA and MVCA*

- Total venture capital investment in Michigan companies during 2008 was $246 million. This is an increase of $141 million over 2007, and represents .87% of the 2008 national total.
- Michigan’s ranking moved from 25 to 16 for total capital investment in 2008. However, Michigan’s increase in venture capital investment coupled with other states negative change in ranking contributed to Michigan’s nine position ranking change.

On a national level, Michigan received less than 1% of total venture capital investment in 2008. There is more progress to be made to improve our competitive position in the national venture capital landscape.
The National Venture Capital Association reports that over the long-term every $28,000 of venture capital invested creates one high-salary direct job.

National Venture Capital and Michigan

- Although Michigan’s ranking in total venture capital investment increased by nine, the state remains among the bottom 40 states with a relatively small amount of venture capital invested.
- Michigan has the ability to rank in the top 10 states and enhance revenues and high-technology job growth by deploying an increased amount of venture capital.
- To attain a top ten ranking, Michigan companies need to receive approximately $500 million of total annual venture capital investment.
National Venture Capital and Michigan

A Tiered View of National Rankings

Pennsylvania has experienced many similar economic challenges as Michigan, and subsequently fueled its venture capital engine. Michigan has the opportunity to do the same, and over the next 5 to 10 years become a top ten state in venture capital investment.

- Michigan ranks at the top of the fourth tier as shown above.
- Venture capital investment from the eight states in the fourth tier represent only 5% of the national total.
- Tiers one and two represent 81% of total venture capital investment.
- Year over year state ranking changes in tiers three through seven are more easily affected by minimal changes of venture capital investment.
- Minnesota, Illinois, Ohio, and Indiana are other Midwestern states in the third and fourth tiers.
Fundraising
2008 Activity

The total current capital raise is $85 million. Nearly 60% of this target has been achieved.

Two venture firms completed their fundraising efforts in 2008.

The total amount of capital successfully raised during 2008 was $172 million versus $110 million in 2007.

Target capital decreased over 2007 as fewer firms fundraised due to current market constraints.
Michigan Venture Capital Programs

Boosting Michigan’s Venture Capital and Entrepreneurial Communities

State and Private Fund of Fund Programs
For Venture Capital Firms

Currently there are two Fund of Funds Managers in the state of Michigan helping to drive fundraising. Each supports efforts to strengthen and diversify Michigan’s economy through investment in venture capital funds.

Credit Suisse
The State of Michigan is supporting two venture capital investment programs for investment into venture capital, mezzanine, and private equity funds. The Venture Michigan Fund invests primarily in venture capital funds with a track record of investing in Michigan. This fund has committed up to $61.5 million into eight venture capital funds. The Michigan 21st Century Investment Fund invests in venture capital, mezzanine, and private equity funds. This fund has committed up to $73.5 million across eight funds and one direct investment. Together the program has made investments into four Michigan-based funds, and seven out-of-state funds who now have a presence in the state. To date, these funds have invested in eleven Michigan-based companies. The Venture Michigan Fund and the Michigan 21st Century Investment Fund have a total investment opportunity of up to $204 million.

Renaissance Venture Capital Fund
The Renaissance Venture Capital Fund is a Fund of Funds that was established with a goal of expanding Southeast Michigan’s entrepreneurial activity. Formed in late 2008 out of Detroit Renaissance’s groundbreaking “Road to Renaissance” initiative, RVCF received its initial support and investment from some of Michigan’s most important organizations. It principally invests in venture capital funds that are active in the region.
Michigan Venture Capital Programs

Boosting Michigan’s Venture Capital and Entrepreneurial Communities

State-Funded Programs Help Fill Gaps in Funding High-Growth Companies

Michigan Pre-Seed Capital Fund
The Michigan Pre-Seed Capital Fund, a collaborative effort of Michigan’s 12 SmartZones, is a $13 million equity fund that invests in technology-based companies to support business formation and acceleration. Ann Arbor SPARK serves as the Fund’s administrator. The Michigan Pre-Seed Capital Fund is a significant resource to help companies in the seed and investigative stages. To date, the fund has made 34 investments.

InvestMichigan!
The InvestMichigan! Growth Capital Fund is a $150 million fund intended to provide assistance to growing Michigan companies, attract world class investment in the outstanding companies already present in Michigan, and encourage investors to locate their portfolio companies in Michigan. Investments are made across a broad range of industry sectors and investment stages, ranging from early stage venture through mature companies. The Growth Capital Program is co-managed by Beringea, a Michigan-based venture capital firm experienced in geographically targeted investment programs, and Credit Suisse’s Customized Fund Investment Group, a highly respected global network of funds and co-investments.
Michigan’s Current Venture Capital-Backed Companies

- Aastrom*
- Accord Biomaterials
- Accuri Cytometers
- Afmedica*
- Applimation
- Arbor Networks
- Arbor Photonics
- Arbortext*
- Asterand*
- Blue Gill Technologies*
- Cerenis Therapeutics
- CMS Technologies
- Colorbok*
- Compendia Bioscience
- Critical Signal Technologies
- Danotek Motion Technologies
- Draths Corporation
- Eagle Rotary
- EcoDuro
- Esperion Therapeutics (I)*
- Esperion Therapeutics (II)
- Foresee Results
- Fulcrum Composites
- Gema Diagnostics
- Genitor Corporation*
- Genvec*
- GuidePoint Systems
- HandyLab
- Healthcare Solutions*
- HealthMedia*
- Incept Biosystems
- InforMed
- Intralase*
- Janeeva
- Limo-Reid
- Lycera
- MaxFunds.com
- Mechanical Dynamics*
- MedElute
- Metabolic Solutions Development
- Micronics
- MicroPosite
- MIST Innovations
- Mobius Microsystems
- Monteris Medical
- NanoBio
- Nanocerox
- NanoMed Pharmaceuticals
- Nematron
- Neogen*
- Nephron
- NephRx
- Performance Fabrics
- Pioneer Surgical Technology
- Pixel Velocity
- Pump Engineering
- ProNai
- Quantum Learning Technologies
- QuatRx Pharmaceuticals
- ReCellular
- SherTrack
- Sircon*
- Solidica
- Stoneage Corporation*
- TAG A&D
- Tissue Regeneration Systems
- Tolera Therapeutics
- Transcorp
- Translume
- Venomix
- VIO Sport
- Weathershield
- Workforce Software Inc.
- XG Sciences

*Company achieved a successful exit.

Michigan has a universe of 58 active companies that have received venture capital financing.
Michigan Investment Spotlight

Start-Up/Early Stage

Metabolic Solutions Development Company
Kalamazoo/Grand Rapids, Michigan

Metabolic Solutions Development Company (MSDC) is a mid-stage company started by two former Pfizer researchers developing therapeutics for the treatment of type 2 diabetes and the progressive cardiovascular morbidity and mortality associated with cardiometabolic syndrome. MSDC recently completed a Phase IIa clinical trial for its lead compound, MSDC-0160.

Headquartered in Kalamazoo, with an office in Grand Rapids, Michigan, MSDC is currently developing therapeutics and conducting clinical trials to meet this significant market opportunity. MSDC has had important research collaborations that include the Van Andel Institute, Western Michigan University, University of California at San Diego, and Washington University in St. Louis.

MSDC has been successful in leveraging extensive Southwest Michigan-based scientific expertise to build a network of research and development partners. MSDC currently has five employees. The company has raised approximately $20 million of early-stage venture capital funding, which has been led by the SWMF Life Science Fund in Kalamazoo, Michigan and Hopen Therapeutics, LLC, in Grand Rapids, Michigan.
Michigan’s Venture Capital-Backed Companies

- There are currently at least 58 venture capital-backed companies with operations in Michigan.
- The average age among Michigan’s current venture capital-backed companies is five years.
- Nearly 40% of all current venture capital-backed companies in Michigan were a result of University technology transfer processes.
Michigan’s Venture Capital-Backed Companies

- A survey of current Michigan-based venture capital-backed companies indicates that the average first round of capital raised was $3 million. The second round was $6 million, the third round was $10 million, and fourth and subsequent rounds were $19 million.
- Investment rounds are higher among companies in the life science sector than those in other industry sectors, such as IT and Advanced Materials & Manufacturing.

<table>
<thead>
<tr>
<th>Michigan Venture Capital-Backed Companies Investment Rounds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Life Science Sector</strong></td>
</tr>
<tr>
<td>4th &amp; Subsequent Rounds</td>
</tr>
<tr>
<td>Mean $6M</td>
</tr>
<tr>
<td>Maximum $25M</td>
</tr>
<tr>
<td>Mean $13M</td>
</tr>
<tr>
<td>Maximum $43M</td>
</tr>
<tr>
<td>Mean $15M</td>
</tr>
<tr>
<td>Maximum $54M</td>
</tr>
<tr>
<td>Mean $31M</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-Life Science Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>3rd Round</td>
</tr>
<tr>
<td>Mean $5M</td>
</tr>
<tr>
<td>Maximum $8M</td>
</tr>
<tr>
<td>2nd Round</td>
</tr>
<tr>
<td>Mean $3.5M</td>
</tr>
<tr>
<td>Maximum $20M</td>
</tr>
<tr>
<td>1st Round</td>
</tr>
<tr>
<td>Mean $5M</td>
</tr>
<tr>
<td>Maximum $10M</td>
</tr>
</tbody>
</table>
Michigan’s Successful Exits of 2008

HealthMedia

HealthMedia, located in Ann Arbor, Michigan, develops online and offline customized health programs for employers, insurers, and other groups. HealthMedia is the only one in the market offering the unique, cost-efficient delivery of online health coaching programs. The company was founded in 1998 by Dr. Victor Strecher, and is a product of over 30+ years of the behavioral science research conducted at the University of Michigan.

In 2000, Ted Dacko became HealthMedia’s President and CEO. He successfully turned the company around after the technology bubble burst. HealthMedia successfully attracted approximately $17 million of venture capital from Michigan-based Avalon Investments and Arboretum Ventures, as well as from Kentucky-based Chrysalis Ventures. HealthMedia continues to experience tremendous growth in revenue and jobs as its worldwide customer base and product offerings expand. Currently, HealthMedia employs nearly 140 people in the state of Michigan.

In October 2008, Johnson & Johnson announced the acquisition of HealthMedia. As a new subsidiary of Johnson & Johnson, HealthMedia will remain in Ann Arbor and continue to focus on its tremendous growth potential.
Michigan’s Successful Exits of 2008

Sircon Corporation

Sircon Corporation, located in Okemos, Michigan, is a software and services company focusing on serving the needs of the insurance industry. Sircon helps companies and individual producers in the insurance industry keep track of requirements needed to be legal to sell insurance in all 50 states. Its software and direct online access significantly reduces the time and paperwork involved in insurance compliance. Robert Nero, the company’s President and CEO since 2003, is an experienced IT sector executive, responsible for expanding the company’s suite of products and services offered to clients in all 50 states, and growing the company to approximately 150 employees.

Sircon raised $14.7 million in capital from Michigan-based venture firms Arbor Partners, EDF Ventures, and Avalon Investments; Ohio-based Blue Chip Venture Company; and the Ralph Wilson Equity Fund. In 2007, the Edward Lowe Foundation named Sircon one of its Michigan 50 Companies to Watch.

In July of 2008, Sircon was acquired by Vertafore, Inc., a leading provider of software and services for the insurance industry. Despite the acquisition by Washington-based Vertafore, Sircon will remain in Michigan and continue to grow its employee-base in our state.
The successful 2008 exits of HealthMedia and Sircon are great examples of how venture capital is crucial in building Michigan’s next high-growth companies and jobs.
Michigan Investment Spotlight

Growth and Expansion

Pioneer Surgical Technology
Marquette, Michigan

Pioneer Surgical Technology, located in Marquette, Michigan, is a medical device firm with a full line of cutting-edge motion preservation devices, either available commercially in Europe or under clinical evaluation in the U.S. Pioneer was founded in 1992 by Dr. Matthew Songer, an orthopedic surgeon who focused on developing products that are easier and faster for the surgeon, cost effective for the health care system, and provide better patient outcomes. Pioneer’s rich pipeline of products indicated for a variety of spinal and orthopedic applications include its signature articulating P3™ Technology - Pioneer PEEK-on-PEEK, in its NuBac™ disc arthroplasty system, BacJac™ interspinous decompression system, and NuNec™ artificial cervical disc, the most technologically advanced in the industry.

The company’s December 2008 $15 million Series B Financing Round, included $5 million from the InvestMichigan! Growth Capital Fund. Other investors include Pharos Capital Group, Highlander Partners, River Cities Capital Fund, and Hopewell Ventures. The financing will help fund the human clinical trials of the NuBac™ Nucleus Replacement Device for the spine, which recently received U.S. Food and Drug Administration approval to proceed to a pivotal investigational study. Pioneer employs over 250 people on its Marquette, Michigan campus, which includes its corporate headquarters and a 120,000 square-foot advanced manufacturing facility.
Building Michigan’s Vibrant Future

Michigan’s Need to Build a Continuum of Capital

Additional funds are needed to complete Michigan’s venture capital continuum, particularly for early stage companies. Michigan has seen tremendous growth in entrepreneurial demand as a direct result of state-funded activities, such as the 21st Century Jobs Fund Business Competitions, the Michigan Pre-Seed Capital Fund, as well as grant funding for the many entrepreneurial organizations and academic institutions that help entrepreneurs become “investor-ready.”

Steady growth among Michigan’s available capital base has occurred, and the state has injected additional capital through the InvestMichigan! Growth Capital Fund. However, the pace of this growth lags the growth in entrepreneurial demand. Now more than ever, without additional capital in the capital continuum, Michigan is at risk of not being able to fund its own entrepreneurs. The opportunity to keep promising companies in the state to grow new economy jobs is at risk.

The information on the next two pages indicates that over $1.6 billion in venture capital demand exists today with only $290 million of available venture capital supply to meet the demand. A significant raise of venture capital over the next five years will provide Michigan with a tremendous opportunity to strengthen its economy by:

1) creating many new high-growth companies,
2) building a vibrant and sustainable venture capital community, and
3) creating tens of thousands of high-salary jobs.

The MVCA is committed to building our private and public partnerships in order to bring an additional $1.5 billion of venture capital over the next five years to Michigan.
Building Michigan’s Vibrant Future

Michigan’s Entrepreneurial Demand

By the year 2013, the MVCA estimates demand will be over $3 billion. This number represents the projected growth in Michigan’s entrepreneurial community. It signals the immediate need for more venture capital investment. Michigan-based venture capital investment would greatly reduce the risk of these companies relocating to another state to obtain sufficient financing to grow.

<table>
<thead>
<tr>
<th>Company Stage</th>
<th>Dollar Demand</th>
<th>No. of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Seed/Seed</td>
<td>$50M</td>
<td>100+</td>
</tr>
<tr>
<td>Start-Up/Early</td>
<td>$1,102M</td>
<td>106</td>
</tr>
<tr>
<td>Growth/Expansion</td>
<td>$455M</td>
<td>14</td>
</tr>
<tr>
<td>Grand Total</td>
<td>$1,607M</td>
<td>310</td>
</tr>
</tbody>
</table>

By the year 2013, the MVCA estimates demand will be over $3 billion. This number represents the projected growth in Michigan’s entrepreneurial community. It signals the immediate need for more venture capital investment. Michigan-based venture capital investment would greatly reduce the risk of these companies relocating to another state to obtain sufficient financing to grow.

Michigan Demand by Sector

- Biotechnology: 34%
- Medical Technology: 14%
- Healthcare Services: 14%
- IT: 11%
- Energy: 5%
- Homeland Security: 4%
- Manufacturing: 6%
- Consumer Products: 12%

*These data have been extracted and analyzed from the deal logs from six Michigan-based venture firms.

70% of MI VC demand is in the Start-Up/Early Stage
Building Michigan’s Vibrant Future

Without additional venture capital funding, Michigan is at risk of losing the new diversified, high-growth companies created.

Over 300 Michigan-based companies have been created and are seeking $1.6 billion in venture capital financing.
RiboNovix, Inc. was founded to discover and develop new anti-infectives that are refractory to antibiotic resistance. The Company’s drug discovery platform is based on a new Combinatorial Genetic Technology (CGT) that allows both the identification of new ribosomal RNA (rRNA) drug targets and the anticipation of resistance mutations in these targets. With this information, RiboNovix is developing new anti-infectives that should be safe, highly-effective and far less susceptible to the development of antibiotic resistance.

Wayne State University Technology Transfer Office undertook an evaluation of the technology with a group of experienced biotechnology executives from Boston and asked for a business development plan. Due to the long development times, the requirement for significant capital, and the lack of availability of early stage capital in Michigan to develop RiboNovix’ technology, the decision was made to seek SBIR funding from the National Institute of Health to support the initial research program. Soon thereafter, RiboNovix, led by the Boston research team, successfully raised $2.7 million through Phase I and Phase II SBIR grants. The decision to establish operations in Massachusetts was made based on a number of factors including the networks of highly-experienced biotechnology researchers and executives, the ease of renting equipped laboratory space, and the broad network of available venture capital and angel capital with life science expertise in the Boston area.


**MVCA Activities**

*Relationships, Talent, and Education*

**Addressing Legislative Needs….**
The MVCA was established in 2002 to be an industry advocate, reaching out to the State’s legislators to encourage financial support for the venture capital industry. While this initial outreach was successful, and was instrumental in the establishment of the Venture Michigan and 21st Century Investment Funds, the need for the MVCA to be a public policy advocate continues. As reflected in this report, the rate of entrepreneurial growth in Michigan far outstrips that of the venture capital industry resident here. The MVCA has and will continue to work to educate the State’s leaders about the vital importance of Michigan continuing its efforts to create and sustain a more robust venture capital environment.

**Addressing Connections to Limited Partners….**
The MVCA established an active capital committee in 2008. This committee is working to connect sources of capital to Michigan-based venture capital firms. Education of local and national sources of capital is a key focus of this committee over the near term. Many potential investors are not adequately familiar either with the venture firms based here or with the breadth and depth of their successes. With the help of Michigan State University, the MVCA soon will publish for its members a directory of limited partners, identifying those which have expressed an interest in considering investing in our geography.

**Addressing Industry Topics and High-Value Networking…**
The MVCA recognizes the necessity of valuable networking within the venture capital industry. In 2008, the MVCA held four breakfast roundtables across the state with sponsorships from various service provider firms within our membership and from Credit Suisse. Over 50 members attended each session. Topics of discussion included raising money, enhancing entrepreneurial networks, and learning about Michigan’s venture capital environment. This effort continues in 2009.
MVCA Activities

Addressing Talent...

The Executive in Residence (EIR) and CEO Placement Programs were structured to merge capital, talent, and business ideas to produce companies poised to succeed. The MVCA created this two-track program to help Michigan-based venture capital firms and their Michigan-based portfolio companies to find and attract executive level entrepreneurial talent.

Executive in Residence (EIR)

The EIR Program provides experienced entrepreneurs seeking their next business venture with an opportunity to join a venture firm. While in the program, EIRs provide both experienced management counsel to the venture firm’s current portfolio companies and assist the venture firm with the identification of new investment opportunities. The goal of the program is to match the EIR with a leadership need in a new portfolio company jointly identified by the EIR and the venture firm.

The MVCA has made loan award commitments to the following venture firms and their EIRs:

- Arboretum Ventures and EIR, Kris Aalto
- Plymouth Management Company and EIR, Ariel Sacerdoti
- Venture Investors and EIR, Chris Gibbons
- SWMF Life Science Fund and EIR, Paul Neeb

CEO Placement

The CEO Placement Program is designed to increase the number and quality of venture-backed executives in Michigan. The CEO Placement Program provides assistance to an existing portfolio company that is recruiting a CEO by subsidizing the CEO’s first year of compensation, assisting with the cost of an executive search, or a combination of both.

The MVCA has made CEO Placement commitments to the following Michigan-based venture capital-backed portfolio companies:

- Lycera Corp. (EDF Ventures)
- Metabolic Solutions Development (SWMF Life Science Fund & Hopen Therapeutics)
- Nephrion Inc. (ApjohnVentures & North Coast Technology Investors)
The MVCA uses its best efforts to publish complete and accurate information. If you know of any oversights or inaccuracies, please contact lauer@michiganvca.org.
The Zell Lurie Institute and its Center for Venture Capital and Private Equity Finance at the University of Michigan’s Stephen M. Ross School of Business, provides both traditional corporate-track business students and those aspiring to launch or work in new enterprises with a comprehensive entrepreneurial education with a special focus on alternative finance and investment. The Institute also serves as a catalyst for new-venture creation and works closely with research units across campus to foster this. Through initiatives, such as the annual Michigan Growth Capital Symposium, the Institute connects the Ross School network with the broader financial community and emerging Midwest companies.
EBITDA moving in the wrong direction? Members of Cendrowski Corporate Advisor’s (CCA) senior team have served as operating managers in diverse industries. Their experience in internal control implementation and facility analysis permits us to assist PE funds in improving portfolio company operations. Our engagements are focused on improving EBITDA quickly and sustainably, even in the current economic environment. We develop process controls to ensure that our improvements remain even after our engagement has concluded. Find out more at www.cca-advisors.com.