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Dear Reader,

The Michigan Venture Capital Association brings to you our third annual Michigan Venture Capital Research Report. The research conducted by the organization is intended to educate and provide vital information regarding venture capital investment activity in Michigan. Venture capital firms either headquartered in the State or with a Michigan presence, were surveyed to provide the data and analysis reported within. This year’s report also includes a survey of Michigan’s angel investor networks in an effort to create the foundation for future analysis in this area. For several analyses, data were supplemented with statistics from the National Venture Capital Association, PricewaterhouseCoopers MoneyTree, and Dow Jones VentureSource reports. The MVCA uses its best efforts to publish complete and accurate information. If you know of any oversights or inaccuracies, contact: lauer@michiganvca.org.

The MVCA appreciates the support and collaboration necessary to continue this important research effort!

LeAnn Auer
MVCA Executive Director

Mina Sooch
MVCA Chairman
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.

Sincerely yours,

Jennifer M. Granholm
Governor

John D. Cherry, Jr.
Lt. Governor

“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.

The Zell Lurie Institute provides business students with a comprehensive entrepreneurial education and serves as a catalyst for new-venture creation by connecting research units across campus with the Ross School network.

Through initiatives such as the annual Michigan Growth Capital Symposium, the Institute provides the platform for the broader financial community to connect with emerging Midwest companies and University researchers.

www.zli.bus.umich.edu
Michigan Venture Capital Association

About Us

The MVCA is a trade organization with the mission to grow and sustain a vibrant venture capital community in Michigan. The MVCA continues 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

MVCA Board of Directors 2009-2010

The MVCA membership includes private and corporate venture capital firms, angel investors, industry service providers and other entrepreneurial participants.
Executive Summary

Despite the economic woes of 2009, growth in Michigan’s venture capital industry remained steady. During 2009, the national venture capital industry experienced a 9% decline from 2008 in the amount of venture capital under management. Michigan-based venture firms, on the other hand, had a 10% increase in the amount of capital under management, now at $1.1 billion. The amount of capital raised among venture firms nationally declined by 63%. In 2009, four Michigan venture firms completed fund closings totaling $163 million.

The local venture capital community also continues to experience increased success as several Michigan-based portfolio companies have achieved notable industry exits. Since 2007, seven Michigan-based companies have been acquired by well-established industry names, such as Johnson & Johnson, Becton Dickinson, and General Electric. These successes will drive more success and help to build our venture capital and entrepreneurial communities.

Michigan has grown as an entrepreneurial state as a result of the successes and restructuring events of our recent past, such as the successful exit of Esperion Therapeutics in 2004, and the disappointing closings of the Michigan Pfizer facilities during the latter half of this decade. Many new start-ups have been founded and developed as a result, and the scientific talent present in Michigan will continue to be extremely instrumental in enabling these companies to achieve start-up success. The same transition is beginning to happen in Michigan’s mature manufacturing industry. Many new start-ups are being created in the alternative energy and advanced materials and manufacturing industry sectors with the highly-skilled engineering talent base that exists in the state.

During 2009, the growth of high-technology entrepreneurial start-ups in Michigan has continued to largely outpace the growth of the local venture capital industry. The amount of available capital among all Michigan venture firms is approximately $345 million, while the demand for venture capital from high-technology companies is in excess of $2 billion. Building a strong continuum of capital in Michigan is critical now more than ever in order to accelerate progress and lay a solid foundation for growth over the next 10 to 20 years.

The MVCA looks forward to improving our environment and remains committed to the cause. The impressive collaboration within our membership makes this work possible!
# National and Michigan Venture Capital Summary Statistics

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>National</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of VC Firms in Existence</td>
<td>794</td>
<td>882</td>
<td>741</td>
</tr>
<tr>
<td>No. of Investment Professionals</td>
<td>6,828</td>
<td>7,497</td>
<td>8,890</td>
</tr>
<tr>
<td>Total Capital Under Management</td>
<td>$179B</td>
<td>$197B</td>
<td>$258B</td>
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<tr>
<td>Avg. Venture Capital Under Management by Firm</td>
<td>$226M</td>
<td>$224M</td>
<td>$347M</td>
</tr>
<tr>
<td>Venture Capital Funds Raised</td>
<td>$15B</td>
<td>$28B</td>
<td>$40B</td>
</tr>
<tr>
<td>Avg. Venture Capital Fund Size</td>
<td>$106M</td>
<td>$144M</td>
<td>$162M</td>
</tr>
<tr>
<td><strong>Michigan</strong>*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of VC Firms in Existence</td>
<td>16</td>
<td>15</td>
<td>15</td>
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<tr>
<td>No. of Investment Professionals</td>
<td>44</td>
<td>43</td>
<td>40</td>
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<tr>
<td>Total Capital Under Management</td>
<td>$1.1B</td>
<td>$1B</td>
<td>$900M</td>
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<tr>
<td>Avg. Venture Capital Under Management by Firm</td>
<td>$76M</td>
<td>$73M</td>
<td>$69M</td>
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<tr>
<td>Venture Capital Funds Raised</td>
<td>$160M</td>
<td>$173M</td>
<td>$0</td>
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<tr>
<td>Avg. Venture Capital Fund Size</td>
<td>$39M</td>
<td>$38M</td>
<td>$40M</td>
</tr>
</tbody>
</table>

*Data represents venture firms headquartered in Michigan

- Despite national declining trends in the number of venture capital firms, investment professionals, and venture capital raised and managed, Michigan has experienced steady growth in these categories.
- The average venture capital under management among the 16 venture firms headquartered in Michigan is $76 million, while the average venture capital fund size among the same firms is $39 million. Both are 1/3 of the national averages.
### National and Michigan Venture Capital

**Venture Capital Investment by State in 2009**

<table>
<thead>
<tr>
<th>State</th>
<th>Rank</th>
<th>Year Over Year Rank Change</th>
<th>Number of Investments</th>
<th>Amount Invested ($Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>1</td>
<td>0</td>
<td>1,137</td>
<td>$8,858</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>2</td>
<td>0</td>
<td>303</td>
<td>$1,985</td>
</tr>
<tr>
<td>New York</td>
<td>3</td>
<td>0</td>
<td>173</td>
<td>$855</td>
</tr>
<tr>
<td>Texas</td>
<td>4</td>
<td>0</td>
<td>111</td>
<td>$645</td>
</tr>
<tr>
<td>Washington</td>
<td>5</td>
<td>0</td>
<td>108</td>
<td>$574</td>
</tr>
<tr>
<td>New Jersey</td>
<td>6</td>
<td>2</td>
<td>74</td>
<td>$560</td>
</tr>
<tr>
<td>Colorado</td>
<td>7</td>
<td>-1</td>
<td>71</td>
<td>$529</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>8</td>
<td>-1</td>
<td>123</td>
<td>$403</td>
</tr>
<tr>
<td>Georgia</td>
<td>9</td>
<td>5</td>
<td>44</td>
<td>$302</td>
</tr>
<tr>
<td>Florida</td>
<td>10</td>
<td>7</td>
<td>30</td>
<td>$295</td>
</tr>
<tr>
<td>Minnesota</td>
<td>13</td>
<td>-4</td>
<td>34</td>
<td>$255</td>
</tr>
<tr>
<td>Illinois</td>
<td>15</td>
<td>-2</td>
<td>43</td>
<td>$195</td>
</tr>
<tr>
<td>Indiana</td>
<td>18</td>
<td>4</td>
<td>15</td>
<td>$151</td>
</tr>
<tr>
<td><strong>Michigan</strong></td>
<td>19</td>
<td>-3</td>
<td>25</td>
<td><strong>$131</strong></td>
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<tr>
<td>Ohio</td>
<td>21</td>
<td>-6</td>
<td>50</td>
<td>$108</td>
</tr>
<tr>
<td>Iowa</td>
<td>23</td>
<td>-1</td>
<td>8</td>
<td>$84</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>29</td>
<td>-4</td>
<td>11</td>
<td>$22</td>
</tr>
<tr>
<td>Missouri</td>
<td>30</td>
<td>-6</td>
<td>13</td>
<td>$19</td>
</tr>
</tbody>
</table>

Midwest

Source: NVCA and MVCA

- Total national venture capital investment in 2009 was $17.9 billion, marking the lowest level of dollar investment since 1997 and a decrease of 37% from 2008. In addition, the number of investments declined by 30%.

- Total venture capital investment in Michigan companies during 2009 was $131 million and represents 0.74% of the 2009 national total. This is a drop of $115 million from $246 million in 2008 and represents 1% of the 37% national drop in venture capital investment, while California accounts for 53%.

- Michigan’s national ranking moved from 16 to 19 for total capital invested in companies during 2009.
National and Michigan Venture Capital

A Tiered View of 2009 National Rankings

Due to $131 million in total venture capital investment, Michigan remains in the fourth tier of state rankings.

With the decline in venture capital investment, many states moved further down the national ranking tier structure. Michigan held its position in the fourth tier, falling from the top position in 2008 to the sixth in 2009.

Venture capital investment from the nine states in the fourth tier represents 8% of the national total, an increase of 3% over the previous year.

Year over year state ranking changes in tiers four through seven are more easily affected by a few million dollar change.
On average, the total amount of venture capital investment in Michigan from 2001 through 2009 was $126 million, and the average number of companies funded in this period was 20.

The 2009 total venture capital investment was $131 million across 25 investments.
Michigan Venture Capital Summary

Michigan’s Venture Capital Firms

Venture Capital Firms Headquartered in Michigan

- Arbor Partners
- Arboretum Ventures
- Apjohn Ventures
- Beringea
- BioStar Ventures
- Bridge Street Capital Partners
- EDF Ventures
- Hopen Life Sciences
- 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

- Chrysalis Ventures
- Early Stage Partners
- Fletcher Spaght Ventures
- Nth Power
- Triathlon Medical Ventures
- Venture Investors

- In 2009, there were a total of 22 venture capital firms operating in Michigan.
- The 22 venture firms have a total of 48 investment professionals located in Michigan.
- There are 16 venture capital firms headquartered in Michigan. Another six firms are headquartered elsewhere, but have a Michigan office.
Michigan has a total of over $2 billion of venture capital under management across all funds operating in the state.

- The amount of capital under management among Michigan-based venture capital firms has increased by $200 million since 2007. These firms represent nearly half of the total capital managed by all firms operating in Michigan.

- $345 million of the total capital under management is available for new investment across all stage, industry sector, and geographical strategies.

- Venture capital available for new investment decreased by 35% over 2008 as venture funds held increased follow-on reserves for their existing portfolio company investments or as firms deferred raising new funds until improvements were made in the capital markets.
More than half of the total capital managed by Michigan venture firms has been invested in the start-up/early stage of a company’s development, while one-third has been invested in the growth/expansion stage.

Nearly half of total capital under management has been invested in the Life Science industry sector. Nearly 70% of Life Science investment has been focused in Medical Device and Pharmaceutical start-up companies.
There are over 70 venture capital firms active in Michigan. This is an increase from the 55 firms identified in 2008.

**Michigan Venture Capital Summary**

**Out-of-State Venture Capital Firms with Current Michigan Investment**

- 401 Capital Partners
- Aisling Capital
- Alpha Capital Partners
- Alta Partners
- ARCH Development Partners
- Atlas Ventures
- Aviv Venture Capital
- Baird Venture Partners
- BioFund Ventures
- **Chrysalis Ventures**
- Clarus Ventures
- CMEA Ventures
- Concentric Equity Partners
- Credit Suisse Group
- Delta Northern Rivers Fund
- DFJ Mercury
- Diamond Capital Management
- Domain Associates
- Duchossois Technology Partners
- Dunrath Capital
- Dupont Ventures
- **Early Stage Partners**
- Element Partners
- Fidelity Biosciences
- FirstMark Capital
- Flagship Ventures
- Flatiron Partners
- **Fletcher Spaght Ventures**
- Frazier Healthcare Ventures
- Hatteras Venture Partners
- H.B. Fuller Ventures
- Hercules Technology Growth Capital
- Highlander Partners
- Hopewell Ventures
- Horizon Ventures
- Intel Capital
- InterWest Partners
- Investor Growth Capital
- Kearny Venture Partners
- Khosla Ventures
- Lightspeed Venture Partners
- Longboat Partners
- Lurie Investments
- Menlo Ventures
- MPM Capital
- **Nth Power**
- Nadal Investments
- NGP Energy Capital
- Open Prairie Ventures
- Oxford Biosciences
- Palomar Ventures
- Partech International
- Perseus
- Pfizer Strategic Investments
- Pharos Capital Group
- Qualcomm Ventures
- Riggs Capital Partners
- River Cities Capital Fund
- Scale Venture Partners
- Sigvion Capital
- Spire Capital Partners
- StatoilHydro Ventures
- Summerhill Venture Partners
- Tera Capital
- Thomas Weisel Venture Partners
- **Triathlon Medical Ventures**
- Twilight Venture Partners
- Updata Partners
- Venrock
- **Venture Investors**
- VentureLink Diversified Balanced Fund

*Venture capital firms with Michigan presence.*
Michigan Investment Spotlight

Medical Device

HistoSonics, Inc.
Ann Arbor, Michigan

A non-invasive ultrasound therapy that ablates tissue with robotic precision, “Histotripsy” was pioneered at the University of Michigan and in 2008, was optioned out with support from the University’s Technology Transfer Office to form HistoSonics, Inc. The company, based in Ann Arbor, uses Histotripsy to liquefy unwanted tissue without applying heat and uses ultrasound imaging to monitor the treatment in real time. Among its many potential applications is the treatment of Benign Prostatic Hyperplasia (BPH), a prevalent condition that affects over two million mostly senior men.

The HistoSonics management team includes President & COO M. Christine Gibbons, who was the MVCA Entrepreneur in Residence at Venture Investors, a seed and early-stage venture investor with offices in Ann Arbor and Madison, Wisconsin, when she first encountered HistoSonics. She spent a year examining the technology and market opportunity, and she then helped mature the business concept to an “investor-ready” stage.

In December 2009, HistoSonics finalized an $11 million Series A financing round led by Venture Investors with syndicate investors Fletcher Spaght Ventures, Hatteras Venture Partners, Early Stage Partners, and TGap Ventures. The company will use the capital to develop its product and prepare for the FDA regulatory approval process, including the anticipated start of clinical trials to treat BPH in 2011.
Arbor Photonics, based in Ann Arbor, has created more powerful, more efficient, more compact lasers for use in manufacturing semiconductors and solar cells and for emerging applications in the defense industry. The technology behind the lasers, an optical fiber structure called Chirally-Coupled Core Fiber (“3C fiber lasers”), significantly improves the performance of fiber lasers in industrial manufacturing, a $2 billion market that grows about 14 percent annually on average. Arbor Photonics CEO, Phillip Amaya, predicts the lasers will enable improved process throughput by 4-10X, reduce electrical power consumption by 3X and enable new applications like directed energy weapons. The company plans to begin shipping its first product - a high power fiber laser amplifier in prototype quantities - by the end of 2010.

A spin-out from the University of Michigan, Arbor Photonics completed its Series A financing round in the first quarter of 2009, receiving $3.7 million from RPM Ventures, the Frankel Fund, the Wolverine Venture Fund and private investors. The company, currently employing eight people, used the capital to hire additional technical staff, establish a product development facility in Ann Arbor, and develop its first prototype.
In 2009, 19 Michigan-based companies received $131 million in venture capital investment.

Six new Michigan-based start-up companies received venture funding during 2009, while 13 previously funded companies received follow-on investment.

- In 2009, Michigan start-up companies and their Michigan-based venture investors created leverage by raising over three times more capital from out-of-state venture capital funds.
- Eight Life Science companies received $58 million, or 44%, of the total investment.
Although total Midwest financings in Life Science and IT have remained flat or experienced a slight declining trend, Michigan financings in these sectors have trended positively.

- Since 2007, Michigan Life Science company financings, as a percentage of total Midwest Life Science financings, has increased, surpassing 25% in 2009.
- In this decade, Michigan IT financings have averaged 10% of total Midwest IT financings.
- Since 2001, Industrial and Alternative Energy company financings in Michigan averaged 25% of all Midwest financings in these areas.

Source: PWC
Michigan Venture Capital Summary

Venture Capital Financings

- The median amount raised by Michigan-based venture capital-backed companies was $2 million in the first round of funding, $7 million in their second and third round of funding and $13 million in their fourth and subsequent investment rounds.

- To date, the mean capital raised by Michigan’s venture-backed companies is $15 million, suggesting good capital efficiency relative to coastal companies.

<table>
<thead>
<tr>
<th>Investment Rounds</th>
<th>All Industry Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>4th &amp; Subsequent Rounds</td>
<td>$44M</td>
</tr>
<tr>
<td>3rd Round</td>
<td>$45M</td>
</tr>
<tr>
<td>2nd Round</td>
<td>$54M</td>
</tr>
<tr>
<td>1st Round</td>
<td>$41M</td>
</tr>
</tbody>
</table>

- Mean - $17M, $11M, $10M, $6M
- Median - $13M, $7M, $7M, $2M
- Maximum - $45M, $10M, $54M, $41M

[Graph showing investment rounds and capital raised]
Michigan Venture Capital Summary

Venture Capital Financings

**Life Science Sector**

- 4th & Subsequent Rounds: Mean $41M, Maximum $45M
- 3rd Round: Mean $12M, Maximum $31M
- 2nd Round: Mean $12M, Maximum $54M
- 1st Round: Mean $6M, Maximum $44M

**Non-Life Science Sectors**

- 4th & Subsequent Rounds: Mean $14M, Maximum $42M
- 3rd Round: Mean $10M, Maximum $30M
- 2nd Round: Mean $8M, Maximum $45M
- 1st Round: Mean $5M, Maximum $41M

- The mean financing raised among Michigan’s current Life Science companies is $17 million. The mean amount raised by all other companies is $14 million.
Critical Signal Technologies (CST) was founded in 2006 and offers products and services to help clients with disabilities, chronic health conditions, or other infirmities stay safe and healthy in their homes. CST has grown to be the nation’s fourth largest independent provider of personal emergency response systems and TeleHealth monitoring services.

CST partners with state health agencies, health insurers, Agencies on Aging, physician groups, hospitals and other health and safety experts who have selected CST’s proven ability to provide quality, cost-effective services that improve their clients’ lives.

To date, CST has raised approximately $21 million in venture capital investment. Seneca Partners, a venture capital firm based in Birmingham, Michigan, was a founding investor in 2006 and participated in a recent inside funding round. Other venture investors include Concentric Equity Partners, Duchossois Technology Partners, and Dunrath Capital. The capital was used for an August 2009 acquisition of Link to Life, adding the resources of one of the nation’s most respected monitoring and service companies. A pioneer in the field, Link to Life brought more than 30 years of premier monitoring and service experience to CST and its clients. CST employs 80 in its Farmington Hills headquarters and expects to build off the success and talent that is already here.
Michigan Investment Spotlight

Medical Device

TransCorp. Inc.
Grand Rapids, Michigan

TransCorp. Inc., a start-up based in Grand Rapids, develops and commercializes novel minimally invasive surgical instruments and implants for neurosurgical and orthopedic applications. The company’s technologies could improve patient safety and outcomes while making surgeries easier and safer for surgeons to perform.

Located in Byron Center (near Grand Rapids), TransCorp is led by co-founder and CEO, Dr. David Lowry. Other company founders include President, Des O’Farrell, Scott Tuinstra, a physician’s assistant, and Roger Veldman, an associate professor of engineering at Hope College.

TransCorp received start-up capital in late 2008 from two venture firms—EDF Ventures, Hopen Therapeutics—and the Grand Angels to develop and commercialize neurosurgical and orthopedic instruments and implants. Some TransCorp instruments are already in use in the field, with a full complement of cervical spine surgery devices expected to be commercially available in the third quarter of 2010.
Michigan Venture Capital Summary

Venture Capital Funds

- The average size venture capital fund among Michigan-based venture capital firms is $39 million, and $63 million among all funds based or with an office in the state.

- There are ten Michigan-based venture funds greater than $25 million in size, recently completing the raise of their second or third funds. In 2007, there were seven.

- Nearly all of the venture capital firms headquartered elsewhere, but with an office in Michigan, have fund sizes exceeding $100 million.

- The survey respondents indicated nearly half of their capital is sourced by institutions outside of Michigan, while a quarter is sourced by high net worth individuals.
Despite the challenging capital raising environment, four Michigan venture firms completed a final fund closing during 2009.

- Four Michigan-based venture firms reached final fund closings during 2009, raising a total of $136 million.
- Of all the venture firms either headquartered in Michigan or with a state presence, six are currently fundraising an aggregate target of $630 million. There are three firms headquartered in Michigan targeting $255 million. So far, nearly 25% of the total capital target has been raised.
- In order for Michigan to thrive as a place where high-technology companies can be started and grown, and where high-paying jobs can be created, the size of Michigan-based venture funds must be increased.
Michigan Venture Capital Summary

Venture-backed Companies Currently Located in Michigan

Advanced Materials & Manufacturing, Alternative Energy
- Arbor Photonics
- Danotek Motion Technologies
- Draths Corporation
- Eagle Rotary
- EcoDuro
- EcoSynthetix
- Fulcrum Composites
- Limo-Reid
- Nanocerox
- Performance Fabrics
- Relume Technologies
- Sakti3
- TAG A&D
- Weathershield
- XG Sciences

Consumer Products, Other
- iBiquity Digital Corp.
- Mobius Microsystems
- Ranir
- V.I.O., Inc.

IT
- Arbor Networks
- CMS Technologies
- Foresee Results
- gloStream
- GuidePoint Systems
- Janeeva
- MaxFunds.com
- MIST Innovations
- MyBuys
- Nematron
- Quantum Learning Technologies
- SherTrak
- Solidica
- Workforce Software

Life Science
- Accord Biomaterials
- Accuri Cytometers
- Cerenis Therapeutics
- Critical Signal Technologies
- CytoPherx
- Discera
- Esperion Therapeutics
- Gema Diagnostics
- HistoSonics
- Incept BioSystems
- InforMed
- Lycera
- MedElute
- Metabolic Solutions Development
- Micronics
- Monteris Medical
- NanoBio
- NephRX
- Nymirum
- OtoMedicine
- Pioneer Surgical Technology
- ProNai
- QuatRx Pharmaceuticals
- RealBio Technology
- Tissue Regeneration Systems
- Tolera Therapeutics
- TransCorp
- Translume
- Vestaron

In 2009, Michigan had 62 companies that were funded by local and national venture capital firms. Together, these companies have created nearly 900 direct jobs in Michigan.

Six years is the average age among Michigan venture capital-backed companies.

Nearly 45% of Michigan’s venture capital-backed companies were a result of University technology transfer processes.
Cities are for general reference only. Companies may not be located exactly in that city.
In 2009, there were four notable exit successes in Michigan. Twenty exits have occurred from the over 100 start-ups formed since 2000. There are still over 60 companies with exit potential in the years to come.
Michigan’s recently exited company investments have delivered IRR’s of at least 40%. These successes validate how venture capital is also an important economic development tool, creating many high-paying jobs; in this case over 500.

- With a total of seven exits from 2007 to 2009, Michigan ranks fourth among Midwest states in total exits during this period.
- Besides Michigan and Indiana, all other Midwest states had a decline in the number of company exits from 2008 to 2009.
- The aggregate value of Michigan’s company exits is nearly six times the total amount of capital raised by the same companies.
Michigan’s Successful Exits of 2009

HandyLab
Ann Arbor, Michigan

An Ann Arbor-based developer and manufacturer of molecular diagnostic products, HandyLab was acquired in 2009 by Becton, Dickinson and Co. (NYSE: BDX), a medical technology firm, for $275 million. The deal, Michigan’s largest venture-backed exit in 2009, returned capital to a pool of investors, including Ann Arbor-based EDF Ventures, who helped found the company and provided the seed capital. HandyLab raised a total of $47 million in four rounds of seed and early-stage equity financing over the course of its nine years, including investments from Michigan-based firms Ardesta, Arboretum Ventures, Dow Ventures, DuPont Ventures, Lurie Investments, SBV Venture Partners and the Wolverine Venture Fund.

The company was founded in 2000 by two University of Michigan chemical engineering doctoral students, Kalyan “Handy” Handique and Sundaresh Brahmasandra. They negotiated an exclusive licensing deal with the University. The company now sells a line of nucleic acid extraction and microfluidic instruments and reagents for molecular diagnostics, allowing hospitals to directly conduct tests that used to be outsourced to outside laboratories. In 2004, Jeff Williams, a successful serial CEO, joined Handylab and was instrumental in their growth and eventual exit. Becton, Dickinson will keep the company’s research facility in Michigan where job growth will occur.
Michigan’s Successful Exits of 2009

Pump Engineering
New Boston, Michigan

An alternative energy company located in New Boston, Michigan, Pump Engineering, LLC is the lead provider of centrifugal turbine energy-saving technology for seawater and brackish desalination processes. The company customizes hydraulic turbochargers and pumps that reduce energy consumption and increase process efficiency. The executive leadership team at Pump Engineering included Founder and President, Robert Oklejas, and Ariel Sacerdoti, Chief Operating Officer and a 2008 Michigan Venture Capital Association Executive-in-Residence awardee at Plymouth Management Company.

For many years, Pump Engineering was a family run pump manufacturing company that discovered the technology to greatly innovate the water desalination industry. Venture capital investment allowed them to achieve the growth necessary to meet their rapidly growing demand. Ann Arbor based Plymouth Management Company both originated and led the $2.4 million growth stage investment in early 2009. By December of the same year, Pump Engineering was sold to California based Energy Recovery, Inc. (NASDAQ: ERII) for over $20 million. Pump Engineering will remain in Michigan and continue to grow their business and jobs in the state.

The success of Pump Engineering is a great example of the ability for Michigan’s mature manufacturing base to produce new, innovative technologies. Such companies have access to a highly-skilled workforce and the local entrepreneurial infrastructure necessary to make these transformations possible.
**Michigan’s Successful Exits of 2009**

**Assay Designs**

*Ann Arbor, Michigan*

Operating out of an Ann Arbor laboratory, Assay Designs annually sells $11 million in kits and reagents for the detection and quantification of small molecules and proteins that are important in inflammation and immunity, oxidative and cellular stress, steroid and hormone biology, cell signaling, and bioenergetics.

Hoping to bolster its product lines’ international reach, Assay Designs was acquired in 2009 by Enzo Biochem, Inc. (NYSE:ENZ) for a purchase price of approximately $12.2 million in cash. The company will remain in Ann Arbor and continue to operate as Assay Designs, part of the Enzo Biochem corporate umbrella.

**Applimation**

*Livonia, Michigan*

Applimation is an IT industry leader in data management solutions by addressing information lifecycle management (ILM) systems. The company’s product suite helps organizations to effectively manage and control their data while considerably reducing their IT costs. Applimation was founded in 1999, and is headquartered in Chicago, with operations in Livonia, Michigan.

RPM Ventures, an Ann Arbor based venture capital firm made their first investment in the company in 2002. Other investors include M Group, Battery Ventures, JMI Equity Fund, and RGB Capital. In February 2009, Applimation was successfully sold to Informatica for $40 million.
There is a growing number of emerging companies in Michigan that have received angel investment and/or a Michigan Pre-Seed Capital Fund investment.

Together, angel and the Michigan Pre-Seed Capital Fund have invested between $5 and $9 million annually into over 50 companies since 2007.

More than half of the investment went to Life Science, while over a quarter went to the IT industry sector.

**Michigan's Company Pipeline**

*Angel and Pre-Seed Investment Activity*

**Angel and Pre-Seed Investments in Michigan**

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment (M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$8.1M</td>
</tr>
<tr>
<td>2008</td>
<td>$8.4M</td>
</tr>
<tr>
<td>2009</td>
<td>$5.8M</td>
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</tbody>
</table>

**Sector Diversification of Angel and Pre-Seed Investment**

- **IT**: 26%
- **Life Science**: 60%
- **Adv. Materials & Mfg.**: 12%
- **Alternate Energy**: 2%

**Michigan is working towards building a vibrant angel investment community to grow the number of entrepreneurial start-up companies.**

- **Active Michigan-based Angel Investor Networks**
  - Ann Arbor Angels
  - Blue Water Angels
  - Capital Community Angels
  - First Angels
  - Grand Angels
  - Great Lakes Angels
Michigan’s Company Pipeline

Angel and Pre-Seed Activity

A sampling of the Michigan companies that have received angel investment and/or Michigan Pre-Seed Capital funding.

<table>
<thead>
<tr>
<th>Life Science</th>
<th>IT</th>
</tr>
</thead>
<tbody>
<tr>
<td>3D Biomatrix</td>
<td>3IS</td>
</tr>
<tr>
<td>Accord BioMaterials</td>
<td>Creative Byline</td>
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<tr>
<td>Accuri Cytometers</td>
<td>ERT Systems</td>
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<tr>
<td>AFID Therapeutics</td>
<td>Janeeva</td>
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<tr>
<td>Armune Bioscience</td>
<td>Mock Draft Central</td>
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<tr>
<td>Aursos</td>
<td>Pixel Velocity</td>
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<tr>
<td>Axenic Dental</td>
<td>RazorThreat</td>
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<tr>
<td>Biotectix</td>
<td>Salamander Technologies</td>
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<tr>
<td>Cielo MedSolutions</td>
<td></td>
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<tr>
<td>Compendia Bioscience</td>
<td></td>
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<tr>
<td>EAD Devices</td>
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<td>Emilem</td>
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<tr>
<td>Hygieia</td>
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<td>Incept Biosystems</td>
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<td>InformMed</td>
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<td>MedElute</td>
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<tr>
<td>Michelle’s Miracle</td>
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<tr>
<td>Nymirum</td>
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<tr>
<td>OcuSciences</td>
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<td>OtoMedicine</td>
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<td>Phrixus Pharmaceuticals</td>
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<td>ProNai</td>
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<tr>
<td>RealBio Technology</td>
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<tr>
<td>SensiGen</td>
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<tr>
<td>TransCorp Medical</td>
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<tr>
<td>Vestarcon</td>
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<tr>
<td>V.I.O.</td>
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<tr>
<td>White Pine Systems</td>
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<tr>
<td>Advanced Materials &amp; Manufacturing</td>
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<tr>
<td>Arbor Photonics</td>
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<tr>
<td>BoroPharm</td>
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<td>Fulcrum Composites</td>
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<td>Jadi</td>
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<td>NRG Dynamix</td>
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<td>ParkingCarma</td>
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<td>SenSound</td>
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<td>XG Sciences</td>
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<td>Alternative Energy</td>
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<tr>
<td>Accio Energy</td>
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<tr>
<td>Algal Scientific Corporation</td>
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<td>Danotek Motion Technologies</td>
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<tr>
<td>Global Energy Innovations</td>
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<tr>
<td>VIA Wind Energy</td>
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</tr>
</tbody>
</table>

About the 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 is the Fund 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 43 investments and created nearly 300 jobs.
Salamander Technologies, based in Grand Rapids and funded in part by the Grand Angels in 2007, is the leading supplier of first responder emergency accountability solutions. Its products offer an automatic identification system that accounts for all personnel, verifies responder identities, and enhances situational awareness at an incident, emergency, or field event. Russ Miller co-founded Salamander Technologies, and currently serves as its President and Chief Executive Officer.

Providing agencies nationwide with a fully interoperable emergency incident command structure based upon NIMS operating procedures, Salamander’s solutions fulfill an important part of the nation’s homeland security imperative for a unified system to identify and track all participants of large-scale emergency incidents. The company’s interTRAX barcoded ID tag contains agency specifics, personnel info, rank, qualifications, and vital medical data linking more than 3,000 responding agencies nationwide. Prominent customers of the product include the U.S. Capital Police, Dallas-Ft. Worth Department of Health, City of Richmond, Department of Defense Fire Training Academy, Redstone Arsenal, State of Michigan USAR, Pocono Raceway, and Michigan State Police - Super Bowl Security.
Many Life Science entrepreneurial start-up companies in the state of Michigan were spawned by the success of the 2004 sale of Esperion Therapeutics to Pfizer for $1.3 billion as well as the Ann Arbor and Kalamazoo Pfizer facility closings. Each event spawned a new generation of early stage Life Science investment opportunities.

Many of the venture capital-backed entrepreneurial executives who successfully built and led Esperion have since been instrumental in the growth of seven start-up companies, six of which are located in Michigan.
Building On Success and Talent

Similarly, as Pfizer closed its doors in Michigan, many scientists and other key employees became entrepreneurs as they created nine more companies.

Combined, these 16 promising companies have successfully raised over $325 million of investment capital in order to grow.

With more start-up company successes such as Esperion, Michigan can continue to expand its entrepreneurial talent base, and spur the formation and growth of more successful companies.
MVCA Activities

*Relationships, Talent, and Education*

**Leading Legislative Activities…**

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. 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 venture capital in Michigan. In addition, the organization collaborates with the National Venture Capital Association to help resolve the various public policy issues affecting the interests of venture capitalists and the broader entrepreneurial community.

In recent years, our legislative work has included creating a $1 billion venture fund program, advocating for angel and venture capital investor tax credits, and educating our national legislators about the negative impact of taxing carried interest as ordinary income and changing the criteria to qualify as a high net worth individual.

**Making 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. The MVCA soon will reach out to inform and educate about the Michigan venture community and its surrounding infrastructure as an extraordinary investment opportunity.

**Providing High-Value Networking…**

The MVCA recognizes the necessity of valuable networking within the venture capital industry. The MVCA held breakfast roundtables across the state with sponsorships from various service provider firms within our membership. Topics of discussion included fundraising, venture and entrepreneurial successes, as well as VC/CEO connections. In 2010, the MVCA plans to further engage Michigan’s entrepreneurial executive community as well as other key venture personnel by offering expanded topics.
Growing Entrepreneurial 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. With a grant from the Michigan Economic Development Corporation, 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 Program (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. To date, the MVCA has made five EIR awards.

- **CEO Placement Program**
  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. To date, the MVCA has made three CEO Placement awards.

The MVCA talent programs have produced eight total awards, with seven successes to date and one still in progress. As a result of awarding $1 million to grow the number of venture-backed executives in our start-up community, the companies have successfully raised over $60 million in venture capital and have all made positive progress in meeting their growth targets.
Michigan Venture Capital Directory

Arbor Partners
130 S. First Street
Ann Arbor, MI 48104
(734) 668-9000
www.arborpartners.com

Arboretum Ventures
303 Detroit Street, Suite 301
Ann Arbor, MI 48104
(734) 998-3688
www.arboretumvc.com

Apjohn Ventures
350 E. Michigan Ave., Suite 500
Kalamazoo, MI 49007
(269) 349-8999
www.apjohnventures.com

Beringea
32330 W. 12 Mile Road
Farmington Hills, MI 48334
(248) 489-9000
www.beringea.com

BioStar Ventures
560 W. Mitchell Street, Suite 480
Petoskey, MI 49770
(231) 487-9186
www.biostarventures.com

Bridge Street Capital Partners
40 Pearl Street NW, Suite 1040
Grand Rapids, MI 49503
(616) 732-1050
www.bridgestreetcapital.com

Chrysalis Ventures
122 W. Huron Street
Ann Arbor, MI 48104
(216) 453-1299
www.chrysalisventures.com

EDF Ventures
425 N. Main Street
Ann Arbor, MI 48104
(734) 663-3213
www.edfvc.com

Early Stage Partners
201 S. Main Street
Ann Arbor, MI 48104
(734) 214-3007
www.esplp.com

Fletcher Spaght
201 S. Main Street
Ann Arbor, MI 48104
(617) 247-6700
www.fletcherspaght.com

Hopen Therapeutics
3133 Orchard Vista Drive, SE
Grand Rapids, MI 49546
(616) 464-5071
www.hopentherapeutics.com

North Coast Technology Investors
206 S. Fifth Avenue, Suite 550
Ann Arbor, MI 48104
(734) 662-7667
www.northcoastvc.com

Nth Power
One Embarcadero Center,
Suite 1550
San Francisco, CA 94111
(415) 983-9983
www.nthpower.com

Oracle Capital Partners
500 Griswold Avenue, Suite 2450
Detroit, MI 48226
(313) 965-9950
www.oracle-capital.com

Plymouth Management Company
220 E. Huron Street, 3rd Floor
Ann Arbor, MI 48104
(734) 747-9401
www.plymouthvc.com

RPM Ventures
320 N. Main Street, Suite 400
Ann Arbor, MI 48104
(734) 332-1700
www.rpmvc.com

Seneca Partners
300 Park Street, Suite 400
Birmingham, MI 48009
(248) 723-6650
www.senecapartners.com

SWMF Life Science Fund
241 E. Michigan Avenue
Kalamazoo, MI 49007
(269) 553-9588
www.southwestmichiganfirst.com/lifesciencefund.cfm

TGap Ventures
259 E. Michigan, Suite 208
Kalamazoo, MI 49007
(269) 760-4570
www.tgapventures.com

Triathlon Medical Venture Partners
250 East Fifth Street
1100 Chiquita Center
Cincinnati, OH 45202
www.tmvp.com

Venture Investors
201 S. Main Street, Suite 900
Ann Arbor, MI 48104
(734) 274-2904
www.ventureinvestors.com

Wolverine Venture Fund
Samuel Zell & Robert H. Lurie
Institute For Entrepreneurial Studies
Ross School of Business
University of Michigan
701 Tappan Street
Ann Arbor, MI 48109
(734) 615-4419
www.zli.bus.umich.edu/wvf
Michigan Angel Network Directory

Ann Arbor Angels
125 S. Fifth Avenue
Ann Arbor, MI 48104
www.annarborangels.org

Blue Water Angels
Mid-Michigan Innovation Center
4520 E. Ashman Road, Suite M
Midland, MI 48642
989-839-2333
www.midmichiganinnovationcenter.org

Capital Community Angels
1181 Ridgewood Drive
East Lansing, MI 48823
517-242-0972
www.capitalcommunityangels.org

First Angels
241 E. Michigan Ave.
Kalamazoo, MI 49007
269-553-9588
www.southwestmichiganfirst.com/firstangels.cfm

Grand Angels
10720 Adams Street
Holland, MI 49423
616-546-4559
www.grandangels.org

Great Lakes Angels
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Detroit, MI 48202
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