



December 2007

Membership Newsletter

734-223-3750
www.michiganvca.org

Letter From the President

Continuing to Build on Our Success

One of our measures of success is that others in our ecosystem come to us for leadership. Three recent examples are worth mentioning.

In early 2007, the MEDC called upon the MVCA to work hand-in-hand to foster the growth of those companies that had received 21st Century Funding in January. This collaborative effort led to the first ever – and hopefully first annual – December event, Michigan's 21st Century Symposium. And it wasn't only the collaboration between the MEDC and the MVCA that led to the success of the event. Companies were selected based on a competitive review of seasoned venture capital investors; selected companies were coached with the assistance of SBTDC, New Enterprise Forum, and the GLEQ. An audience of nearly 200 participants learned about ten promising young companies and evaluated the promise of their technologies. All entrants received valuable feedback along the way and made useful new connections. Three presenting companies will continue to gain value as they attend and present at the World's Best Technology Showcase event in March. The event, to be held in Texas this year, draws a national audience and is designed to recognize the most innovative technologies being commercialized across the US.

In the summer of 2007, both the MEDC and SPARK linked up with the MVCA to work collaboratively to bring to Michigan, for the first time, the annual conference of the National Association of Seed and Venture Funds (NASVF). This will be held at the Marriott Renaissance Center in Detroit on September 10-12. Watch our web-site for continuing news about this exciting event.

In the summer of 2007, the Zell-Lurie Institute reached out to the MVCA to ask it to co-sponsor its signature event, the Michigan Growth Capital Symposium, or MGCS. We enthusiastically agreed as this hits the bull's eye of our targeted mission: abundant and accessible capital. Please watch the MVCA web-site, www.Michiganvca.org for ways you can become engaged.

And there will be more ways our association can execute its mission: more accessible capital, more accessible talent, more successful venture-backed companies, and more successful venture funds. We have provided development funding for two new venture funds and are reviewing others; our research program is well into development; and we have funded our first entrepreneur in residence. Within this issue, please note the MVCA EIR program has been expanded to provide up to \$200,000 of assistance to a venture-backed company in Michigan seeking a new CEO. This assistance may be spent to support the cost of engaging a professional recruiting firm, or, to support the one year salary of a CEO which a venture-backed company recruits. We believe that having recourses available to recruit top talent when internal cash is short can be a key success factor. If it sounds like an opportunity made for you, please contact LeAnn Auer, our Executive Director.

And on that note, please express your individual thanks to LeAnn. Without her leadership and hard work, none of the activities here would have been possible. Thank you LeAnn!

Mary L. Campbell
Founder & General Partner, EDF Ventures

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JANUARY 2008

ACE '08
Thursday, January 17, 2008
Washtenaw Community College
Ann Arbor, MI

FEBRUARY 2008

Invest Midwest
February 19-20, 2008
St. Louis, MO

MARCH 2008

MVCA VC Breakfast Roundtable
Tuesday, March 4, 2008
8:00-9:00AM
To Be Announced
Ann Arbor, MI

MVCA Board Meeting
Tuesday, March 11, 2008 / 3:00-5:00PM
MEDC Offices
Lansing

MVCA Legislative Reception
Tuesday, March 11, 2008 / 5:30—8:30PM
Troppo Restaurant
Lansing, MI

2008 Midwest Venture Summit
March 17-18, 2008
Chicago, IL
Www.midwestventuresummit.com

World's Best Technology Showcase
March 26-27, 2008
Arlington-DFW, Texas
www.wbtshowcase.com
(Michigan companies will be presenting)

APRIL 2008

Michigan 50 Event
April 24, 2008
6:00pm
Lansing Center

MAY 2008

MVCA Board Meeting
May 14, 2008
8:00-10:00am
Marriot at Eagle Crest
Ypsilanti, MI

Michigan Growth Capital Symposium
May 14-15, 2008
Marriot at Eagle Crest

SEPTEMBER 2008

2008 NASVF Annual Conference
September 10-12, 2008
Marriot at Renaissance Center
Detroit, MI
www.nasvf.org

NOVEMBER 2008

MVCA Annual Meeting
Monday, November 3, 2008
To Be Determined

MVCA Member Highlights

The MVCA is very happy to partner with the University of Michigan to present the 27th **Michigan Growth Capital Symposium**. The event will be held on May 14-15, 2008 at the Marriott at Eagle Crest in Ypsilanti. Now is the time for companies to apply to present at MGCS 2008. Thirty companies, representing a range of industries, will present for an audience of venture capital, angel and institutional investors. The early application deadline is Tuesday, February 26, and final application deadline is Tuesday, March 11th. For more information visit www.michiganGCS.com.

The MVCA has made the results of the **Research** initiative, completed to date, available on our website (in the members only section). Many of the reports published may be useful to your fundraising activities or other business initiatives. If you are missing log-in details, please contact LeAnn Auer at lauer@michiganvca.org.

Applications for the newly revised **Executive In Residence** are now being accepted. To learn more about these programs or to find out how to apply, please visit the MVCA Spotlight section of our website's home page, at www.michiganvca.org.

Please save the date for **MVCA's Legislative Reception** taking place on Tuesday, March 11, 2008 at Troppo's Restaurant in downtown Lansing. Stay tuned for further event details.

The MVCA will kick-off a series of **VC Breakfast Roundtables** this year. The roundtables will be held on the first Tuesday of each quarter and will provide an opportunity for MVCA members and entrepreneurial CEOs to mingle and discuss various industry related topics. The first VC Breakfast Roundtable will be held in Ann Arbor on Tuesday, March 4th from 8-9:30am. This and the dates for subsequent roundtables can be found in the calendar to the left.



Venture Upstart's Executive In Residence program has a new look

During the late fall of 2007, the MVCA's Executive In Residence program went back to the drawing board for a strategic redesign. And the outcome is something, we believe, will be more interesting to our venture capital members.

imited amount of the loan award in turn limited the possibilities in recruiting an experienced EIR either in Michigan or to Michigan. Hence, the need for a program redesign.

munity can greatly benefit from any number of qualified, experienced EIRs or entrepreneurial CEOs. Defining a number will not measure our success.

In the original program, up to \$100,000 was offered as a loan award to a venture capital firm interested in hiring an EIR. The MVCA had set out to award ten EIRs over a two year period. However, with the many Michigan venture capital firms fundraising, hiring an EIR seemed to be a lofty commitment. Also, the lim-

In the new program, venture firms may apply for a loan award for up to \$200,000. The loan award may be used to pay the one year salary of an EIR, or a newly recruited CEO in one of their Michigan-based portfolio companies. As an alternative, the loan award may be applied towards the recruiting fees incurred in finding an entrepreneurial CEO.

LeAnn Auer, the MVCA's Executive Director states, "One of the key visions of the MVCA is to have abundant and accessible entrepreneurial management talent in Michigan. By thinking more broadly about the challenges venture firms face in this area, it was an obvious call to increase the loan award potential, and expand the program so as to also benefit new or existing portfolio companies. Thus, giving us a higher probability of meeting our goals."

Michigan's venture capital com-

For more information about the Executive In Residence program, please visit the spotlight section on the MVCA website's home page. Alternatively, you may also contact LeAnn Auer at the following number (734)223-3750.

MVCA's First EIR Quickly Adds Value to Arboretum

When Arboretum Ventures became the first awardee of MVCA's Executive in Residence (EIR) Program this fall, they set up a desk for Kristin Aalto as their new EIR. Even though Jan Garfinkle at Arboretum had known Aalto professionally for two years before hiring her, some pleasant surprises quickly emerged to highlight the benefits of the program for both the firm and Aalto as she began her tenure in the position.

"Frankly, it's hard for smaller funds like ours to afford putting talented people on the payroll given the way our funds are structured. So, cost sharing makes a lot of sense," said Tim Peterson, Managing Director at Arboretum Ventures.

Arboretum, founded in 2002 and listed this fall in *Entrepreneur Magazine* as one of the nation's top 100 venture capital firms, specializes in health care, life sciences, and health care information. In 2003, they raised \$25 million and now have \$73 million under management. Garfinkle works closely with Tim Peterson, the firm's other managing director, and Senior Associate Paul McCreadie.

Funds from the MVCA EIR Program opened the door for Arboretum to hire Aalto. "Frankly, it's hard for smaller funds like ours to afford putting talented people on the payroll given the way our funds are structured. So, cost sharing makes a lot of sense," said Peterson. The EIR Program also allows Arboretum to "consider incubating raw technology that has everything but someone to bring them forward," said Peterson.

A biomedical engineer by training, Aalto most recently was the Project Coordinator for the Coulter Translational Research Program at U-M, where she coached U-M biomedical engineering faculty on how to commercialize research — translating it "from bench to bedside."

Aalto's brown cowboy boots peek out from sleek black pants at a group discussion with Peterson in the Arboretum conference room, giving a glimpse to her life outside the office. After work she occasionally runs with Garfinkle before driving home to two young children, three horses on her farm, her pilot husband, and a small plane that they fly together.

Aalto has a background in engineering, sales and general division management roles in business for fifteen years. Despite her wide range of business experience, Aalto said she found it educational to watch the decision-making process in action at Arboretum.

MVCA's First EIR Quickly Adds Value to Arboretum (Continued)

"There hasn't been a crisis or a trauma or an ah-ha moment. It's just been watching Tim and Jan and Paul sort through what may initially be very different opinions on the relative merits of something," said Aalto.

The timing of decision-making and the skills needed to navigate making those types of decisions also has surprised Aalto. She has seen potential opportunities that "are a very long term courtship and there are some others that may materialize and necessitate a decision overnight."

"Good investments in business are three, five, ten year relationships. That's part of our business — building those relationships, so that we're ready when an opportunity arises," said Peterson.

In hiring an EIR, Arboretum also went with an established relationship — Garfinkle had been one of Aalto's board members at the Coulter Program.

"We all had some pretty good feelings about how Kris would function with her skill sets, and we were surprised and impressed overall," said Peterson. "Within a week of starting here, Kris was adding value to Arboretum at a meeting with an entrepreneur and myself because she could ask good questions. I'm not an engineer."



To find a new company to invest in, they are looking at opportunities either that are on the Arboretum list, known to Aalto through her experience at the Coulter Program, or that came to their attention through conferences and networking. "Jan in particular wants me to make sure to stay in tune with my emotional drive — obviously a project has to make good business sense — but to see a project through, you must have a passion for the project," said Aalto.

Peterson saw the EIR Program application process as straightforward and "the right balance between thoroughness and efficiency."

For other venture capital firms in this situation, Peterson recommends two starting steps: making an organizational decision to have an EIR in your firm and then systematically finding the right person.

The MVCA Celebrates Its Fifth Anniversary at the 2007 Annual Meeting

"Tonight we stand as tall and steady as the wooden timber in northern Michigan," said Mary Campbell at the opening of the Michigan Venture Capital Association 2007 annual meeting. Campbell's analogy and the wooden MVCA coasters on the tables as take-home gifts emphasized that the MVCA is now celebrating its fifth anniversary year, typically celebrated with wood.

Within the last five years, Michigan venture capital has not only created the unified voice of the MVCA with full time staff, but has grown from nine to fifteen firms.

The message from the meeting speakers was of a challenging and exciting future for Michigan venture capital carved out of a persistent, hardworking vision.

Richard Eidswich recounted a less-than-glamorous beginning for the MVCA when he was honored with the "Above and Beyond" award for founding the MVCA. Hat in hand, Eidswich would approach companies who said they couldn't afford to join the MVCA and legislators who wouldn't speak with him.

The MVCA Celebrates Its Fifth Anniversary at the 2007 Annual Meeting (Continued)

"I'll admit in those days, we were trying to get money out of the state," said Eidswich. "Our goal was to create a common voice, and we had to do something."

The MVCA efforts helped push the state to create the 21st Century Jobs Fund and the \$95 million Venture Michigan Fund. The MVCA has received a \$2.1 million 21st Century Jobs Fund grant to help form new venture funds in Michigan, create more entrepreneurial talent in Michigan, and gather research about the industry.

CEO Dr. Robert Zerbe of Quattrx Pharmaceuticals was honored as Entrepreneur of the Year for raising the most money by any company in Michigan—\$110 million in five rounds.

He emphasized the importance of partnering with the out-of-state venture capital community. "I know the departure times for all the non-stop flights to San Francisco and New York," he said. Michigan is ranked 25th amongst all states in venture capital under management.

"In this business, the sizzle is as important as the steak," advised Zerbe. "You have to portray effectively what you have. If you're thoughtful, creative and can take initiative, you can go far."

John Neis, co-founder and Managing Director of Venture Investors LLC of Madison and Ann Arbor and Chris Rizik from Ardesta received this year's Exit of the Year award for the IPO of TomoTherapy, Inc. Even when an investment can change the lives of cancer patients, the decision to invest is not an easy one, said Neis.

Urged on by the U-M Dean of the Medical School and encouraged by "fabulous data and a viable plan," the investors started out slow with a quarter-million dollar investment in TomoTherapy, a Madison, Wisconsin company develops specialized radiation therapy equipment. Their investment paid off when TomoTherapy went public—with a market cap at IPO \$926 million.

Today the company has 150 employees and a \$228 million backlog. "It would have been a home run in Boston or Palo Alto—but it was a grand slam here," said Neis.

"Don't be afraid to go against the flow if you find something you believe in," said Neis. "Also, invest in passionate people. The company founders didn't even think of themselves as entrepreneurs. They realized what they could do and felt they had no choice."

Over dessert, CEOs representing the \$645 million under management by Michigan venture capital listened to an alternative energy panel moderated by James A. Croce from Next Energy in Detroit. Croce said the alternative energy market is the fastest growing venture capital segment. VC invested \$1.6 billion in the alternative energy market worldwide in 2006, with \$1.3 billion in the U.S.

"You'd have to live under a rock to not know this is an opportunity," said Croce. He said the industry can create 17,000-19,000 jobs in the state over the next thirteen years.

The energy panel consisted of Bryant Tong from Nth Power in San Francisco, William Lese from Braemar Energy Ventures in New York, and Jim Matheson from Flagship Ventures in Cambridge, Mass.

"We still have to compete against standard products. For biofuels we're competing against price per barrel, said Tong. "We'd like to believe we can operate without subsidies, but without subsidies, the industry wouldn't have gotten off the ground."

Matheson said he looks at putting together two or more disciplines, such as nanotechnology and materials science to develop a heat exchanger. He's investigating wave and tidal energy. "We think water is the next oil," he said. In addition, Matheson and Lese mentioned another promising energy source: algae.

Debbie Merion is a freelance writer and writing coach in Ann Arbor. She can be reached at demerion@aol.com.