



# Membership Newsletter

## Letter from the President

Exciting and busy times for the MVCA to share with you.

### MVCA 2005 Annual Meeting

In November more than 90 members attended the MVCA Annual Meeting. Highlights included:

- **John Denniston**, Partner at Kleiner Perkins, gave a terrific key note speech titled, "Technology in a Flat World."
- **Kelly Williams**, Managing Director of CSFB, provided an update on the Venture Michigan Fund.
- Winners of the MVCA Entrepreneur of the Year Award for 2005 were:
  - ❖ **Randall Charlton**, CEO of Asterand
  - ❖ **Ray Schiavone**, past CEO of Arbortext
- The **MVCA Lifetime Achievement Award** was presented to **Ted Doan** of the Herbert H. and Grace A. Dow Foundation for his strong and unwavering support of the venture community in Michigan.

### Venture Michigan Fund Update

In 2005, the Venture Michigan Fund had to undergo technical corrections at the legislative level to ensure that the fund could be operational. Specifically, the Single Business Tax could have been eliminated, and therefore, it was necessary to create a security for lenders by allowing alternative forms of taxes. The tax credits had to be modified to avoid any lending of credit issues for the State. Public Act 102 of 2005 was signed by the Governor on July 21, 2005, which allows the creation of tax vouchers. Further, Public Acts 233 and 234 of 2005 were signed by the Governor on Nov. 21, 2005. Public Act 233 increased the limits to allow the Venture Michigan Fund to raise \$450 million over its lifetime. Now that the legislation has been approved, VMF can begin to move forward. Currently, CSFB, on behalf of the VMF, is in the quiet period. However, it is anticipated that capital will be deployed beginning in Q2, 2006.

### 21<sup>st</sup> Century Jobs Program

This state program will distribute \$1 billion over the next 10 years for commercialization efforts. Ron Reed and Raj Kothari, co-chairs of the MVCA Legislative Committee, have done a great job quickly getting up to speed on the various aspects of the program. Please be sure to read the legislative brief on pg. 3 for an overview of the entire program.

## New Officers & Board Members

Jan Garfinkle  
President

Mary L. Campbell  
Treasurer

J. Michael Bernard  
Secretary

### Board Members through 2008:

Tom Kinnear  
Ann Arbor

Pat Morand  
Kalamazoo

Ron Reed  
Ann Arbor

Bryant Zanko  
Kalamazoo

John McIlwraith  
Cincinnati

**President -- From Page 1**

The MVCA board has agreed to submit an RFP to the 21<sup>st</sup> Century Jobs Program requesting funding for 3 key areas:

1. Talent: EIR and venture staff programs
2. Research: Capital tracking and LP screening
3. New Fund Development: For new and existing funds

As you may recall, our 2006 goals established the need for these programs. We believe these programs will greatly support the entrepreneurial activities of venture-backed companies, along with providing the much needed additional support for our venture funds. Ultimately, we believe that to have a vibrant venture community, we need the venture funds to perform extremely well in order to successfully raise their next funds and continue to expand the total amount of capital under management in Michigan.

Over the next several months we will keep you apprised of our success in the RFP process and hope to be able to implement these programs in Q3, 2006. If any of you would like to help, please don't hesitate to let us know.

**Events and Outreach**

Finally, Ken Van Heel and Mina Sooch, co-chairs of the Events and Outreach Committee, are in the process of setting up many activities for the year. Please see the MVCA calendar at right for the key dates.

All the best,

**Jan Garfinkle**

## 2006 Calendar of Events

**January 26**

ACE Meeting (5-8 p.m.)

**February 17**

21<sup>st</sup> Century Job Fund LOI Due

**March 7**

Kalamazoo Venture Tuesday  
(9-11 a.m. – Kalamazoo Radisson)

**March 21**

MVCA Board Meeting – Lansing  
(3-5 p.m.)

Legislative Reception – Lansing  
(5-8 p.m.)

**March 24**

21<sup>st</sup> Century Job Fund RFP Due

**April 26-27**

NVCA Annual Mtg. – San Jose

**May 15-17**

Michigan Growth Capital Symposium

Cocktails (Monday, 5-8 p.m.)

MVCA Board Meeting (Tuesday, 9-11 a.m.)

Growth Capital Symposium (Tues. & Wed, 11 am)

**September 12**

MVCA Board Meeting  
(3-5 p.m.)

**November 14**

MVCA Board Meeting (3-5 p.m.)

MVCA Annual Meeting (5-9 p.m.)

## 21<sup>st</sup> Century Jobs Programs

The following legislative brief was recently submitted by **Ron Reed and Raj Kothari**, co-chairs of the MVCA Legislative Committee.

**Short Summary:** The **21st Century Jobs Programs** is the combination of two house bills HB 5047 and SB 533 that, together, will **distribute** the securitizations and tobacco settlement revenues which will total \$1 billion. (This \$1 billion does not include any return on investments).

### Background

- A)** There are three programs identified in the 21<sup>st</sup> Century Jobs Program.
- Program 1: Venture Capital, Private Equity & Mezzanine Funds Development (for a maximum 40% of allocated capital)
  - Program 2: Loan enhancement Program, CAP (for a maximum 25% of allocated capital).
  - Program 3: Commercialization of Competitive Edge Technologies (for a maximum 70% of allocated capital).
- B)** The allocation of money across the three programs is directed by the Michigan Strategic Fund (MSF) Board.
- C)** The allocation of funds in Program 3 have further oversight from the Strategic Economic Investment Commercialization (SEIC) Board
- D)** HP 5047 directly addresses the investment into or alongside qualified Venture Capital, Private Equity and Mezzanine Funds from Program 1.
- E)** The MEDC will be requesting letters of intent to request funding from Program 3 NLT 17 Feb deadline with proposals to be delivered NLT 24 March.
- F)** The House and the Senate recently created a joint committee to oversee the deployment of 21<sup>st</sup> Century Jobs Funds.

### Analysis

There is a significant opportunity to support the execution of this legislation in a manner that may dramatically impact the short and long term objectives of the MVCA. Namely, we believe that there is sufficient capital available from this program over the next several years to directly lead and invest into new Michigan funds (existing and new managers) and to fund ancillary programs that would improve the likelihood of success for Michigan Venture Capital Funds to include...

- GAP funding programs managed by Michigan VC, “accelerators”, and tech transfer offices in collaboration with Michigan VC.
- VC Fund Development Activity (EIR, Fund Management, fund formation, etc)

It is evident, however, that many of these programs may require managers to oversee and run these programs. In some instances, the MEDC is expressly prohibited from performing these functions and in other instances they may not have an interest in playing this role. This may necessitate proposals by the MVCA for the management of one or more programs.

We believe that Program 3 has considerable risk of failure as measured by the development of successful business activity and jobs if funds are directly invested into companies without management by profess **21<sup>st</sup> Century Jobs – continued on Page 4**

### Action To Date

- A)** Met with the representatives, Rep. Huizenga (Rep) and Rep. Dillon (D), and the staff that created and introduced HB 5047 and continue to develop dialogue with their staff to strengthen communication and our working relationship.

### Program Highlights

- 21<sup>st</sup> Century Jobs Programs allocate the capital from “tobacco money”
- Capital is available to directly address the development of new venture funds, gap funding and other supporting programs
- Action is being taken to support favorable programs for Michigan Venture Capital
- Opportunity for MVCA to directly create or support the development of programs.

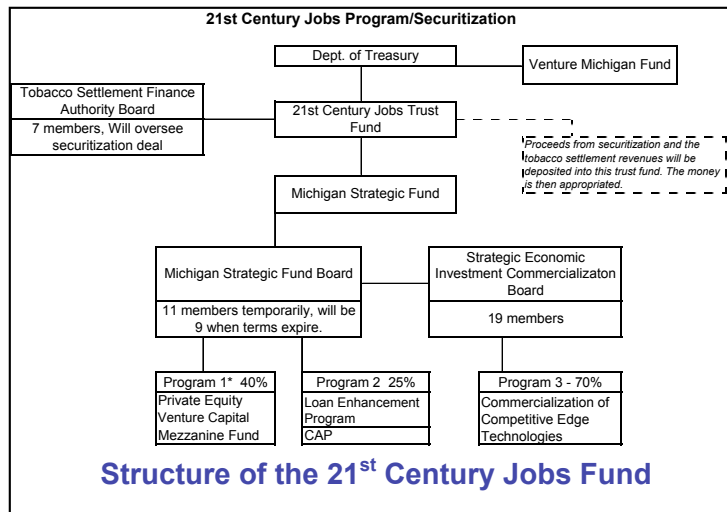
- B) Responded to a request for recommendations for the MSF board which we submitted.
- C) Met with the MEDC to discuss their recommendations for programs.
- D) Have opened dialog with SPARK and Tech Town to discuss their plans for proposals to these programs and how we may work together to support our mutual objectives. As an example, we are discussing an EIR program with SPARK.

**Planned Action**

**Board Discussion.** There appears to be an opportunity for the MVCA to directly receive funding from programs in this legislation that could be used for Fund Development programs to include EIR, fund formation, research, marketing and other venture funding support.

At the MVCA board meeting, Tuesday, 17 Jan, the Legislative Committee will propose that we:

- 1) Develop draft proposals for specific GAP funding and Venture Fund Development Programs to be managed by the MEDC, MVCA, or other organizations in the state. We are getting quotes to develop a budgetary estimate for this activity.
- 2) Make recommendations to the MSF board and key representatives in the House relating to the management of Program 1 by a fund of funds manager.
- 3) Make recommendations to the MEDC, MSF board and key representatives in the House relating to the investment decision process in Program 3 for direct investment into companies. We propose to recommend that this process be managed by the same fund of funds manager that would manage Program 1.



- 4) Make recommendations to clarify or modify the language in the HSB 5047 Sec. 88f. (d), **which as currently written states...**

*Provide that a qualified venture capital fund is not eligible to participate in a venture capital investment program unless it agrees to make venture capital investments in this state at a percentage rate that is not less than the percentage rate that the fund's investment in the qualified venture capital fund bears to the total amount in the qualified venture capital fund.*

We propose inserting language similar to...

... unless it agrees to make **best efforts to invest** venture capital investments in this state...

We believe this or a similar modification to the bill will make these funds more acceptable to third party investors and in turn, give Michigan a better opportunity to leverage its capital. **21<sup>st</sup> Century Jobs – continued on Page 5**

**Background**

**MSF Board**

- 1) David Hollister, Director (he or designee within dept)
- 2) Jay Rising, State Treasurer (he or designee within dept)
- 3) John Epolito, President of MEDC
- 4) George Jackson, president and CEO, Detroit Economic Growth Corporation
- 5) James Herbert, president and CEO, Neogen Corporation
- 6) Richard Rassel, chairman and CEO, Butzel Long
- 7) Charles P. Rothstein, founder and strategic managing director, Beringea LLC
- 8) J. B. Shah, Chairman, Spalding De Decker Assoc.
- 9) ? the ninth board member remains unknown to us at this time.

**SEIC (“Commercialization”) Board**

- 1) A. David Canter, Senior Vice President, Pfizer Global Research & Development, designated by Granholm as chair of the SEIC
- 2) Judith Bailey, President of Western Michigan University
- 3) John Brown, CEO, Stryker Corporation
- 4) Mary Lincoln Campbell, Senior Partner, EDF Ventures
- 5) David Cole, Chairman, Center for Automotive Research
- 6) Mary Sue Coleman, President of the University of Michigan
- 7) James Croce, CEO, NextEnergy Corporation
- 8) Mike Jandernoa, former Chairman and CEO, Perrigo Company
- 9) Ken Rogers, Executive Director of Oakland County
- 10) David Baker Lewis, Chairman, Lewis & Munday, PC
- 11) Glenn D. Mroz, President of Michigan Technological University
- 12) Michael Rao, President of Central Michigan University
- 13) Irvin Reid, President of Wayne State University
- 14) Lou Anna K. Simon, President of Michigan State University
- 15) George F. Vande Woude, Director of Research, Van Andel Research Institute
- 16) Dennis J. Wend, Executive Director, National Automotive Center
- 17) David Hollister, Director, Department of Labor and Economic Growth
- 18) Jay Rising, State Treasurer

**Allocations of Capital for the \$400,000,000 appropriated in HB 5047 for '06 and '07...**

\$16,000,000	4% for Admin Cost (3% only, unless the board approves an additional 1%)
\$20,000,000	5% for Business Development and Marketing
\$90,000,000	Life Science commitment to be spent in program 3 ('06=\$40mm, '07=\$50mm)
\$26,000,000	Forest Finance Authority
\$10,000,000	Defense Contract Coordination Center
\$3,000,000	Good Management Practice and Core Technology Alliance
\$6,000,000	Automation Alley
\$2,000,000	Michigan Film Office
\$2,000,000	Patent/Tech Transfer Program at MEDC
\$15,000,000	Michigan Promotion Program
\$5,000,000	Ag Development Fund
\$3,500,000	Capital Access Program (CAP) funding for two years
\$201,500,000	Remaining funds to be distributed on all three programs

