Ann Arbor / Ypsilanti

Smart Zone Business Accelerator

Description and Application
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June 28, 2002
Ann Arbor / Ypsilanti Smart Zone Business Accelerator Description
For those of us professionally dedicated to nurturing young businesses, the priority of networking—making connections—is not just part of what we do, it is the essence of what we do. This proposal for the Michigan Economic Development Council’s (MEDC) Business Accelerator program will highlight our current network of connections in the Ann Arbor/Ypsilanti area, the network that will serve as a foundation for a vibrant and successful business accelerator. The MEDC-sponsored grant is needed to enable us to expand that network and create an ideal infrastructure and environment for nurturing young businesses.

The main strengths the current Ann Arbor/Ypsilanti Smart Zone team will bring to the new accelerator include:

- **A diverse background and experience developing a technology-based hub**—Even before the launch of the Ann Arbor/Ypsilanti Smart Zone last year, a group of nationally-recognized academics, government officials, and business leaders came together in 1999 with the aim of creating a hub for technology companies, a place where innovative ideas could emerge, find support, and grow. That hub became known as the Ann Arbor IT Zone, which, since its inception three years ago, has helped stimulate business development in the area through professional networking events, educational programs, and business accelerator activities. For entrepreneurial education, the IT Zone has delivered more educational and networking programs to its constituents in the last two years than any other entrepreneurial-focused organization in the State of Michigan. The IT Zone has also contributed resources to enhance and expand the area’s technology infrastructure.

Business leaders contribute to the success of the Ann Arbor IT Zone and provide entrepreneurs with the strategic know-how they need to succeed. The IT Zone provides services to qualified entrepreneurs through two programs: our Business Advisory Team program, or BAT—which was developed jointly with the Michigan Small Business Development Center—and a Business Planning “Boot Camp,” an intensive four-day business development workshop. These programs have been effectively linked with similar programs such as the Great Lakes Venture Quest.

In addition, as one of Michigan’s designated Smart Zones, we have connected a diverse and highly distinguished group of community leaders, academic thinkers, and entrepreneurs with the goal of developing new public and private partnerships in Washtenaw County. We believe our Smart Zone has a well-balanced approach to business development because we draw on the expertise of individuals working in government, academia, and private business. Specifically, our sponsors include the cities of Ann Arbor and Ypsilanti, the Ann Arbor IT Zone, the University of Michigan, Eastern Michigan University, and the Washtenaw Development Council.

The business leaders and professional service providers who have been involved with the Ann Arbor/Ypsilanti Smart Zone and the Ann Arbor IT Zone will tap into existing networks to quickly and efficiently support new technology-based businesses in the Business Accelerator program.

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- Considerable strategic resources available going forward—Key to the success of any MEDC-sponsored Business Accelerator program will be its ability to find individuals with both relevant experience and the ability to communicate that experience to the leaders of young companies.

With the assistance of the MEDC grant funding, the Ann Arbor / Ypsilanti Smart Zone, will create a Business Accelerator program that expands upon strategic programs currently offered through the Ann Arbor IT Zone. Programs will be managed by a small professional staff lead by a respected Champion. To leverage our network, we will retain the assistance of key business service providers, our academic and venture capital supporters, and our leaders from the private sector. Additionally, we will incorporate additional resources from our collaboration with Eastern Michigan University. Dean Earl Potter will coordinate the integration of EMU programs including: the College of Business and its Center of Entrepreneurship, the Institute of Community and Regional Development (ICARD), and the Office of Research Development.

The individuals involved with these IT Zone projects are committed to serving the MEDC-sponsored Business Accelerator program as members, sponsors, and program participants. They include professionals from many organizations; please refer to Appendix 1 for a complete company and individual listing.

- A starting location with planned expansion—The Ann Arbor IT Zone has an existing facility partially outfitted for multi-tenant occupancy. The IT Zone’s “Launch Pad” currently supports three activities of Ann Arbor IT Zone partners: MichBio contract research teams, UM TechTransfer summer interns, and four Zell / Lurie Dare to Dream companies. After receipt of the MEDC grant, we will do minor leasehold improvements to accommodate Smart Zone clients in the business planning stage.

Our existing relationships with local real estate professionals will allow us to immediately identify additional space within the Smart Zone areas to emerging companies that qualify for the Smart Zone Business Accelerator program. Depending on their stage of development and industry focus, we have arrangements with McKinley Management and Ardesta for additional easily reconfigurable space, initially configured for small early stage companies with short-term leases. We are also working to arrange access to a Wet Lab facility to offer similar early stage capabilities to life sciences companies.

- A broadband communications network—Because Ann Arbor is the home of Internet2 and the Merit Network, we have access to state-of-the-art Internet and advanced Internet2 connectivity through the Merit Computer Network and the Internet2 organization. The current real estate partners have high-speed communications infrastructure in place. Emerging businesses with approved research relationships with the University of Michigan can be provided Internet2 access in the Launch Pad or other locations.

- Opportunity to leverage resources from other state-sponsored initiatives—Associations with the state-sponsored Michigan Technology Center and LinkMichigan initiatives will enable us to leverage resources. Other collaborations include MichBio for executive recruiting and entrepreneurial programs, and Ardesta and the proposed MEMS Consortia.
Our Resource Providers in Detail

The Ann Arbor / Ypsilanti Smart Zone has established relationships with some of the area’s leading companies, entrepreneurs, venture capitalists, business incubators, and academics. The following table provides an overview of how our key resource providers will contribute to the Business Accelerator program:

<table>
<thead>
<tr>
<th>Description of Contribution</th>
<th>Existing Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Services</strong></td>
<td></td>
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</tbody>
</table>
| Expanding on the Business Advisory Team (BAT) program currently managed through the Ann Arbor IT Zone, we will retain a monthly commitment from selected business service providers. Each is donating pro bono time and has offered discounted rates. | - Dykema Gossett  
- MillerCanfield  
- PricewaterhouseCoopers  
- CompanyCrafters  
- Ardesta  
- Eiler Communications  
- Enlighten |
| **Incubator / Real Estate** |                   |
| We have initial and will add additional real estate partners to create short-term lease arrangements for early stage companies with a staff of 5 to 15 people. Office space will be located near the LaunchPad. By the end of 2003, some 5,000 square feet of additional office space will be available for the Smart Zone at the newly established Michigan Technology Center headquarters in Ann Arbor. | - Ann Arbor IT Zone  
- Michigan Technology Center (winter 2004)  
- Ardesta  
- McKinley Management  
- Allen & Kwan |
| **Venture Funding**         |                   |
| We have developed partnerships with local venture capital investors to support the Business Accelerator program. In partnership with a regional venture capital firm, we have established an early seed-funding program to provide $50,000 to $100,000 to companies as they startup, and we have agreements with most of the regional VC firms to provide both investments in seed stage companies and follow-on rounds for Accelerator clients. We will also host Angel Investor forums to encourage relationships between our Accelerator clients and individuals who have an interest in early stage ventures. | - Arbor Partners  
- Arboretum  
- Ardesta  
- EDF Ventures  
- M Group  
- North Coast  
- Waypoint Ventures |
| **Education**               |                   |
| With an eye toward forming the strongest possible local educational network, we will strengthen our existing relationships with the University of Michigan and add complementary roles for Eastern Michigan University. The Michigan Small Business Development Center will expand its existing roles and assist us with assessment and training. | - University of Michigan  
- Eastern Michigan University  
- Michigan Small Business Development Center |

In addition, we will work with all of our partners, existing and future, to identify Corporate Partners capable of providing large contributions, either in cash or in-kind services, to support and sustain the success of the Ann Arbor / Ypsilanti Smart Zone Business Accelerator program.

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Overview of Our “Accelerator Critical Elements”

As recommended, we are including our capabilities as they relate to the six Accelerator Critical Elements (ACEs), as identified by the MEDC. We conducted additional research into the best practices of these and selected other accelerators to deepen our knowledge of these requirements. (A more detailed report from the UM TechStart team is available upon request.)

Identifying the Technology

The Ann Arbor and Ypsilanti communities have extensive technology resources and expertise in the following key growth markets: information technology, life sciences, alternative energy, MEMS (nanotechnology), and advanced manufacturing. We intend to provide business acceleration services for all these markets. Our current network is strongest for IT, life sciences, and MEMS because of our partnership relationships, but we plan to extend the network to accommodate alternative energy and advanced manufacturing.

The actions we will take to assist in the process of identifying technology include:

- Partner with the Technology Transfer Offices at the UM and EMU.
- Create a Technology Advisory Board from our entrepreneurial community and our network of corporate sponsors.
- Form three expert panels in information technology, life sciences, and nanotechnology.
- Seek sponsored research commercialization grants from corporate partners.

To identify potential technological and entrepreneurial opportunities (technology mining), we have created a Technology Advisory Board (TAB) that consists of a combination of University researchers, from the respective technology transfer offices, and industry-focused venture capital partners. We will mine for technology with two groups: The Technology Advisory Board (TAB) to pinpoint important emerging areas and Entrepreneurs in Residence (EIR) for Mining Opportunities (EMO) who will seek out opportunities in their respective disciplines. TAB is passive body that performs peer review of technology opportunities that come to the Business Accelerator. The EMOS actively mine for commercial opportunities and try to match needs with available technology.

Potential companies applying to the Business Accelerator program will be rigorously screened by either a university technology transfer office or by an established technical expert panel focusing on a particular area, such as information technology, life sciences, or nanotechnology. To stimulate and support the growth of our accepted Business Accelerator companies, we also plan to establish corporate partnerships with businesses in the private sector and our local academic institutions.

These partnerships will be leveraged through research commercialization grants to assist local businesses with their product development needs. For example, Pfizer has emerging bioinformatics needs, and our local "cluster" contains these resources: 1) the UM is home to a major bioinformatics program; 2) the UM and EMU have distinguished computer science programs; and 3) there is substantial information technology entrepreneurial experience in the Ann Arbor/Ypsilanti area. The benefits here are twofold: community

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benefits because the grant reduces the level of government or community support required and the company benefits by outsourcing some of its research activities.

Additionally, the Ann Arbor/Ypsilanti area has a cluster of successful and emerging network infrastructure companies. With the addition of the University Consortium for Advanced Internet Development (UCAID)/Internet2 and Merit, this cluster represents a major opportunity with the inclusion of the following companies: 1) Arbor Networks; 2) Interlink Networks; 3) IENG/Cisco; and 4) NextHop.

Servicing the Business
The Ann Arbor/Ypsilanti area has a large population of highly successful technology-based entrepreneurs who are already mentoring and consulting for early stage companies. Our challenge for the Business Accelerator program will be to network this expertise and experience to optimally support our young businesses.

The Business Advisory Team (BAT) program, developed jointly by the IT Zone and the Michigan Small Business Development Center, will be our model for our network of business service providers supplying rigorous screening, assessment, advice and educational direction. The Ann Arbor/Ypsilanti Smart Zone will provide a central coordinating focus and shared resources to support: 1) business and strategic planning; 2) human resources; 3) markets and product development; and 4) service provider networks.

Building Talent
With two major universities and a strong community college, the Ann Arbor/Ypsilanti area has multiple sources for training and mentorship.

We plan to expand the Ann Arbor IT Zone’s existing educational programs, which are conducted with university and community volunteers. In addition, the Washtenaw Development Council (WDC) and Washtenaw County have just completed a branding study. They intend to launch a marketing campaign that highlights the diversity of talent and attractiveness of the community for potential entrepreneurial opportunities. We will coordinate our marketing efforts with WDC and Washtenaw County to attract Corporate Sponsors and entrepreneurial talent.

More specifically, we will develop programs to assist Business Accelerator companies in the following areas:
- Management team recruitment
- Mentor recruitment
- Access to educational and training opportunities
- Access to know-how networks

Accessing Capital
Given the abundance of entrepreneurial opportunities in Ann Arbor, it’s not surprising that most Michigan-based venture capital firms maintain offices in Ann Arbor. We plan to build even stronger relationships with our Angel Investor community and encourage later stage investors to consider financing companies sooner. In part, we intend to accomplish this by reducing the risk profile of our early stage companies through rigorous screening,
active support services, and mentoring. In this way, we believe additional early stage venture capital will be available from existing and new firms.

We will assist Business Accelerator companies in attracting capital by:

- **Ensuring startup companies are equipped with effective business tools.** This will include an extension of our “Boot Camp” program, offered through the Ann Arbor IT Zone, which currently helps budding entrepreneurs develop a focused “Elevator Pitch,” create a polished business plan executive summary, and deliver an executive overview presentation for VC funding.

- **Building an Angel Capital Network:** We will participate with our funding partners to create an Angel Capital Network that specifically funds our Business Accelerator supported companies. We are building the Smart Zone as the network where the angels connect to entrepreneurs.

- **Assisting with funding.** We have raised, from a Seed Stage Funding Partner, a pool of capital for “Proof of Concept” investment. This will help to bridge the seed stage gap so that our accelerator companies can achieve the critical initial milestones required to attract early stage Angel or Venture Capital.

**Managing the Program**

We recognize that the key to the success of our efforts will be attracting and retaining a “Champion” to create and grow the network of partners envisioned for the Ann Arbor/Ypsilanti Smart Zone Business Accelerator program.

Chuck Salley, an Ann Arbor-based Angel Investor, will serve as the “Champion” Supporting Chuck will be an advisory board of experienced venture capital partners; they will provide substantial in-kind services under Memorandum of Understanding (MOU) with the Smart Zone. The advisory board currently includes: Greg Buck, a principal with venture capitalist firm M Group; Jan Garfinkle, president of Arboretum Ventures; Tom Kinnear, executive director of the University of Michigan’s Zell-Lurie Institute for Entrepreneurial Studies; and Marc Weiser, a managing partner of Waypoint Ventures in Ann Arbor.

The initial Smart Zone Business Accelerator staffing will be composed of the Champion, a Managing Director (Co-Champion), an Educational Services Manager, and a Program Coordinator as full time staff. Membership services, program services, and administrative support personnel will be part-time appointments. As we expand our vision, we expect to retain our existing base of dedicated volunteers and add additional volunteer resources from new partners, such as MichBio. Our network of partners will include the strong relationships built over the last two years through the Ann Arbor IT Zone’s BAT and Boot Camp programs, and increased local support as the result of the launching of the Smart Zone Business Accelerator program.

We have done substantial best practices research and plan to adopt the following business model:

- Provide entrepreneurial education and networking events to the entire community.
- Provide intensive mentoring, coaching, and financial support to selected companies.
The short-term goal of the Ann Arbor/Ypsilanti Smart Zone is to demonstrate the sustainability of our business model post-MEDC grant funding support. Therefore, we will focus on successfully accelerating at least one company by December 2003. This will validate the concept, the team, and the partnerships so that we can raise the corporate sponsorship to sustain and grow the Business Accelerator program.

Focusing Regional Assets
We believe in the power of networks to focus and multiply the success of the total community. As the Sun Microsystems tagline says, “The Network is the Computer.” Similarly, we believe that “The Network is the Smart Zone.” Our Smart Zone will succeed because of our extraordinary network of educators, technology innovators, experienced entrepreneurs and financing partners. In addition to University of Michigan participation previously cited, the Smart Zone will be assisted by Earl Potter, Dean of the College of Business at Eastern Michigan University to develop similar programs and relationships with EMU.

As we mentioned earlier, the Ann Arbor IT Zone was established to serve as a hub for Information Technology. The IT Zone recently broadened its activity to include partners from the Life Sciences and nanotechnology fields, while recognizing that information technology is a key component of most technology-based businesses. We will accomplish this transformation not by competing with other initiatives or groups, but by partnering and sharing common resources to support the whole technology cluster in the Ann Arbor/Ypsilanti area. Initial partnership relationships are established with MichBio and Ardesta, representing the MEMS Consortia.

An MEDC grant and matching funds from our Sponsorship Partners will help us to realize our vision for a powerful community network. The City of Ann Arbor will establish a Local Development Finance Authority (LDFA) to approve the use of a portion of its Smart Zone Tax Incentive Financing for the initial two years of the Business Accelerator program. The Smart Zone LDFA funding will grow from $25,000 in fiscal 2003 to $500,000 in 2008. This early government support coupled with our tangible success will attract additional sponsorship, which will, in turn, help us to sustain and grow the Ann Arbor/Ypsilanti Smart Zone Business Accelerator program after the initial two-year period.
Implementation Plan

The preliminary Implementation Plan for the Smart Zone Business Accelerator is:

<table>
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<tr>
<th>Time Frame</th>
<th>Highlights</th>
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- Initial education events expanding upon existing Ann Arbor IT Zone programs. |
| * 4Q 2002  | - First two client companies accepted into Smart Zone Business Accelerator.  
- Expanded educational schedule including first quarterly Boot Camp. |
| * 1Q 2003  | - Screen and accept three client companies into Smart Zone Business Accelerator.  
- Expanded educational schedule including second quarterly Boot Camp. |
| * 2Q 2003  | - Screen and accept three client companies into Smart Zone Business Accelerator.  
- Expanded educational schedule including third quarterly Boot Camp. |

The implementation plan and milestones (below) will be monitored through quarterly reports and meetings between the LDFA board and the Business Accelerator “champion” and staff.

Measurable Milestones

We project the following measurable milestones of our business acceleration activity:

First Fiscal Year (July 2002 – June 2003)
Entrepreneurial Education 100 events 5,000 total attendees
Business Plan Boot Camp 3 events 90 (2.5 people x 36 companies)

Client Companies by Stage:  
- Pre-Acceleration 8 20
- Acceleration 3 12
- Post-Acceleration 1 10
  12 42

Funding Raised: $1,350,000 (8 x $25,000 + 3 x $100,000 + $750,000)

Second Fiscal Year (July 2003 – June 2004)
Entrepreneurial Education 125 events 6,000 total attendees
Business Plan Boot Camp 4 events 120 (2.5 people x 48 companies)

Client Companies by Stage:  
- Pre-Acceleration 15 37
- Acceleration 8 40
- Post-Acceleration 2 20
  25 97

Funding Raised: $2,675,000 (15 x $25,000 + 8 x $100,000 + 2 x $750,000)

More detailed plans are under development. Most of the above milestones measure progress regarding companies and jobs created. While it is harder to measure, an equally important metric will be how well we create a network and networking opportunities for all participants in our Smart Zone activities. We will spend a substantial amount of our time and resources creating, hosting, and supporting others to create events where this networking can flourish and enable sustainable change in the perception and reality regarding our technology-based business creation capability in our region and in the State of Michigan.

June 28, 2002
Ann Arbor / Ypsilanti Smart Zone Business Accelerator Application Statement

Ann Arbor / Ypsilanti Smart Zone

Identifying the Technology

Focusing Regional Assets

Managing the Program

Servicing the Business

Building Talent

Accessing Capital

June 28, 2002
Introduction

The overarching purpose of the Smart Zone Business Accelerator will be to help guide entrepreneurs and startup teams through early stage development, and to assist existing small businesses in positioning themselves for growth. To best communicate this process and our associated service offerings, we will use two visual aids. First, the Venture Value Chain\(^1\), Exhibit 1, shows a graphical depiction of the five stages associated with developing a business: Shaping, Launch, Scaling, Managed Growth, and Liquidity. In the Smart Zone, our specific focuses will be on:

- helping startups navigate the first two stages, Shaping and Launch; and
- assisting already-established small businesses to more successfully navigate Scaling and Managed Growth.

By providing our clients access to consultative advice and guidance from top-quality, seasoned business professionals in various disciplines. The Smart Zone’s goal will be to lower the risk associated with new ventures, thereby increasing the survival and success rates of technology ventures in our area. For a more complete explanation of the Venture Value Chain and the types of support required during its five stages of growth, see Appendix 3.

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\(^1\) The term "Venture Value Chain" is a trademark of CompanyCrafters LLC. The concepts pertaining to the Venture Value Chain, including those described in this document, are copyright-protected by CompanyCrafters LLC and used herein with permission.
Second, Exhibit 2, shows the MEDC-provided Smart Zone Technology Business Acceleration Model that will also be used to help communicate the our process and associated service offerings.

With these models as a base, the remainder of this proposal discusses the Accelerator Critical Elements (ACEs) provided by the MEDC "Technology Business Acceleration" study.
Identifying the Technology

A: Participant and Organizational Expertise

The Ann Arbor/Ypsilanti area is home to Internet 2 (I2), a major life sciences research facility (Pfizer), a world-class research university, a regional university with niche strengths in technology, and numerous high-tech entrepreneurial activities. Furthermore, this area has been engaged in a community-wide effort, through the IT Zone, to foster the growth of high-tech businesses. Specific partners in realizing the vision for the Smart Zone will make up a Technology Advisory Board identified below. The members of the Board come from public and private sector organizations in the region that sustain the intellectual capital and entrepreneurial energy that characterizes the Ann Arbor/Ypsilanti area and bring the full array of technical, legal, financial and business development expertise necessary for the Smart Zone to succeed.

For technology mining, we will use a combination of industry-focused venture capital partners to assess the commercialization potential of the technology available at the Universities and in the local community. Our Technology Advisory Board will include:

<table>
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<tr>
<th>Partner/Organization</th>
<th>Represented By</th>
<th>Smart Zone Role</th>
</tr>
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<tbody>
<tr>
<td>Arbor Partners</td>
<td>Jason Burr</td>
<td>Entrepreneur In Residence (EIR) for Information Technology</td>
</tr>
<tr>
<td>Arboretum</td>
<td>Jan Garfinkle</td>
<td>EIR for Life Sciences</td>
</tr>
<tr>
<td>Ardesta</td>
<td>Vinay Gupta</td>
<td>EIR for MEMS</td>
</tr>
<tr>
<td>Eastern Michigan University</td>
<td>Brian Anderson</td>
<td>Director Research Development</td>
</tr>
<tr>
<td>M Group</td>
<td>Greg Buck</td>
<td>EIR for Information Technology</td>
</tr>
<tr>
<td>North Coast</td>
<td>Kurt Rieger</td>
<td>EIR for Information Technology</td>
</tr>
<tr>
<td></td>
<td>Mina Sooch</td>
<td>EIR for Life Sciences</td>
</tr>
<tr>
<td>University of Michigan</td>
<td>Marvin Parnes</td>
<td>Vice President Research</td>
</tr>
<tr>
<td>Waypoint Ventures</td>
<td>Tony Grover</td>
<td>EIR for Information Technology</td>
</tr>
<tr>
<td></td>
<td>Marc Weiser</td>
<td>EIR for Telematics</td>
</tr>
<tr>
<td>MichBio</td>
<td>TBA</td>
<td>Industry Expert</td>
</tr>
</tbody>
</table>

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The Smart Zone primary partners in technology mining will be the technology transfer operations of the University of Michigan (UM) and Eastern Michigan University (EMU). While the University of Michigan’s Technology Transfer operation supported the creation of 12 new companies last year, the existence of the Smart Zone will expand their capacity dramatically. The Smart Zone will develop greater capability by strengthening networks, increasing access to assistance, and generating critical mass in emerging areas of interest. We will work with EMU to transfer Best Practices to its emerging TechTransfer activities and support the launch of the Michigan Alliance for University Technology Management.

The Technology Transfer Board in conjunction with the technology transfer operations of UM and EMU provide or direct Business Accelerator companies to the key resources they will need to achieve success. For more details on the participants, please refer to Appendix 1.

**B: Organizational Structure and Processes**

This section describes the Smart Zone’s approach to balancing breadth and focus in identifying and selecting businesses for participation in the Accelerator. Each university has established its own procedures for evaluating which business opportunities will be developed in-house and subsequently spun out as independent companies.

Those that come to the Smart Zone via the UM or EMU technology transfer programs will have been screened by the universities using their own criteria (see attachments) and the Smart Zone’s criteria. Each university has established its own procedures for evaluating which business opportunities will be developed “in-house” and which are best developed as independent companies. Companies in the former category may be supported by the Smart Zone services as well but the primary responsibility for screening and development remains with the university. Companies in the later category will be candidates to work directly with the Smart Zone.

The second channel is the process that will be used for all Smart Zone candidates that are not part of a university technology transfer program. The Smart Zone will form three technical expert panels in information technology (IT), life sciences and nanotechnology to evaluate the technical merits of proposals. Panels will be comprised of academics, industry representatives from MichBio and Ardesta and entrepreneurs with experience developing businesses in each area. The chairs of these committees, or “Executives in Residence”, are Marc Weiser for Information Technology, Jan Garfinkle for Life Sciences, and Vinay Gupta for Nanotechnology.

A second panel of management experts will assess the business plan. The chair of this team is Greg Buck. Other members will include business development experts with experience in consulting with high-tech businesses, banking and venture capital. Businesses that “pass” these two screens are admitted to the Accelerator at one of the four stages in the MEDC development model (Business Concept Development, Business Feasibility, Product/Service Development, and Final Business Rollout).
Businesses that approach the Smart Zone via Channel 2 will prepare a business opportunity document that is not a full business plan that addresses how they meet the following requirements:

- Qualify as a high-tech business in one of three primary areas of focus with proprietary technology/knowledge.
- Qualify as a start-up, in early stage development or poised for “leap-forward”.
- Have identified market and competitive advantage.
- Have the technical competence to deliver the product/service.
- Have the potential for creating new jobs.
- Have solid investment potential.
- Confirm willingness to participate with the Ann Arbor/Ypsilanti Business Accelerator under applicable terms of engagement.

Expert panels will assess the potential client against the criteria and for fit within the Smart Zone’s own business plan. Businesses that are accepted will be channeled into appropriate development phases.

Besides the focused processes for handling incoming Business Accelerator prospects, technology mining through the university technology transfer to generate new leads will be a cornerstone of ensuring the breadth required for success. To identify business opportunities in the wider community, the Smart Zone will use its expert committees to lead networking activities in each area of interest. Current and emerging areas of promise will be identified through a regular technology mapping process. In addition the Smart Zone will work with key business partners to identify areas in which start-up activity is of particular interest to the “large players” in high-tech businesses. When related, new areas of interest are identified. The Smart Zone will develop focused network development activity related to these areas.

**C: Implementation Plan**

Because of the region’s experience with the IT Zone and the strength of established technology transfer programs, the Smart Zone will be able to begin operations immediately upon designation by the MEDC. The Smart Zone Champion will be Chuck Salley. Mr. Salley is leading the proposal writing team and has extensive prior experience with UM Technology Transfer projects, as well as extensive industry experience.

The Smart Zone has recruited expert panel chairs to serve as Entrepreneurs in Residence (EIR) at the Smart Zone, enabling the crucial technology mining and screening functions to begin immediately. The Champion also has prior experience working on community development, networking, and business development projects with each of these partners. Therefore, we believe we can launch our technology mining activities even as we develop more formalized processes to support the needs of the expanded activity envisioned by the Smart Zone.
D: Organizational Contributions

The following organizations will contribute to the Smart Zone as described below.

**University of Michigan Technology Transfer.** UM Tech Transfer will actively partner with the Smart Zone. UM Tech Transfer will designate the Smart Zone Business Accelerator as the preferred (but not exclusive) provider of commercialization services for UM-based technology transfer projects and will recommend the Smart Zone Business Accelerator to its licensed startups. UM Tech Transfer will work closely with the Smart Zone Technology and Business Advisory Boards to evaluate UM’s project portfolio of startup opportunities and identify matches with Smart Zone resources. The Zell/Lurie Institute and UM Tech Transfer will collaborate with the Smart Zone on technology commercialization in the form of educational programs and student intern work opportunities. Ken Nisbet, Executive Director of UM Tech Transfer, will serve on the Smart Zone Advisory Board, assuring a close working relationship between the Smart Zone and UM Tech Transfer.

**Eastern Michigan University Technology Transfer.** EMU will partner in a new technology management venture if funding is provided in part by MEDC. A proposal to MEDC was submitted on May 30, 2002 and is currently under review. The Michigan Alliance for University Technology Management (MAUTM): 1) "acts as a magnet for innovative ideas from nascent and developing technologies with the member institutions", and 2) "identifies prospects for technology clusters developing around these institutions." MAUTM provides invention disclosure assessments, strategic technology marketing, commercialization planning, services for patenting and a regularized approach to intellectual property and licensing. EMU will partner with the Michigan Small Business Development Center and the Smart Zone for the development of business opportunities appropriate for external development. The Smart Zone will include MAUTM’s Technology Managers for advanced manufacturing, biotechnology and information technology as advisors to its expert panels. EMU’s chief research officer, Brian Anderson, will serve as a member of the Smart Zone’s Advisory Board linking EMU Tech Transfer strategies to the Smart Zone’s technology identification planning.

**Community Technology Mining.** The Smart Zone will extend the successful IT Zone networking model to nanotechnology and Life Sciences. Each expert panel in these areas will draw upon work with business partners, technology mapping, and ongoing consultation with business services partners to grow networks in key areas, e.g., bioinformatics. Networks of inventors and entrepreneurs will be developed in each area. Educational events will be offered as appropriate to teach the commercialization process and prepare businesses for application to the Smart Zone. When appropriate, the Smart Zone will assist members in participating in the Great Lakes Venture Quest (GLVQ). The Smart Zone will also rely on the GLVQ for cues to emerging high-tech opportunities. We are discussing with the GLVQ organizing staff, the concept of awarding full or partial scholarships into the Smart Zone Accelerator for GLVQ finalists.

**Technology Mapping.** UM Tech Transfer in partnership with the Zell-Lurie Center for Entrepreneurship has contributed a team of graduate students to develop a current map of technology enterprises in the Smart Zone market. The map is more "fine-grained" than any available before and will guide network development activity. The map will be updated yearly using UM and/or EMU graduate students.

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Business Partners. As an example of our corporate partnership strategy, the Smart Zone will work with MichBio and Pfizer business development leaders to identify startup areas of interest to the company. We are recruiting Pfizer personnel as key members of the Smart Zone’s expert panels. Talks are underway to establish a commitment to provide gap funding for selected life sciences startups especially in bioinformatics.

Emerging Areas of Interest. Efforts in this area will be developed as technology mapping suggests new directions that are affirmed by our business partners. EMU’s Center for Entrepreneurship and the UM’s School of Information are engaged with the New Enterprise Forum to bring together IT Entrepreneurs who are seeking new fields of enterprise with Life Sciences business leaders. The purpose of this activity is to increase activity in the bioinformatics arena by moving excess entrepreneurial resources from an area where development has slowed to one that is accelerating.

Attracting and Holding High-tech Business Startups. The Washtenaw Development Council (WDC) has developed a branding strategy to focus on developing the reputation of the region for innovation as an excellent environment for fast-track business development. The Smart Zone will work with WDC to integrate information about the Smart Zone’s business development capability into the region’s marketing efforts. This effort will support the outreach and relationship development work of the Smart Zone.

E: Leveraging and Matching MEDC Funding Resources

MEDC has multiple technology commercialization initiatives especially for university research. Several examples have been mentioned already. Through its relationships with both universities in the region, the Smart Zone will coordinate its activities to complement and not duplicate existing programs.

The major initiative that our Smart Zone has taken is establishing Entrepreneurs in Residence, or EIR. We have commitments of substantial pro-bono time from experienced Venture Capital partners to serve as our technology mining and due diligence partners in their technology specialty area. The key personnel who have already agreed to participate are listed on our Technology Advisory Board. We will recruit additional members from regional industry.

F: Measurable Milestones and Outcomes

Milestones are listed below:
3Q 2002 - Complete research into TechStart draft of Technology Map.
        - Initiate Technology Advisory Board meetings.
        - Expert Panels formed in top three areas of interest.
4Q 2002 - Section procedures and outreach plan finalized.
        - Networks of inventors, entrepreneurs, in each area of interest have been identified and have met.
        - Needs assessment in each area of interest has begun.

More detailed plans are under development.

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This section describes the organizations and individuals who will deliver the education and mentoring required to navigate the Venture Value chain successfully.

A: Participant and Organizational Expertise

The Ann Arbor/Ypsilanti area is blessed with substantial educational and mentoring resources that are appropriate for guiding technology start-up ventures:

* The Zell / Lurie Institute at the University of Michigan Business School is focused on entrepreneurial education and delivers business plan mentoring programs, such as Dare to Dream, Hale Pryor, and Great Lakes Venture Quest.
* The College of Business at Eastern Michigan University has recently established an Entrepreneurial Institute to deliver similar programs.
* The Ann Arbor IT Zone has delivered over 100 education and networking events over the last three years through its Hi-Tech Tuesdays and IT Forums.
* Individual practitioners such as Jim Price at CompanyCrafters, Carlos Zorea at Zorea Associates, Lisa and Mike Kurek at BioBusiness Consultants, and Karen Bantel who have agreed to work with the Smart Zone on mentoring.

For a more complete list of service providers, see Appendix 1, which provides a summary of their expertise and participation as well a link to their website for further details.

B: Organizational Structure

Business Services will be provided by volunteers, staff and contracted professionals and will be overseen by Smart Zone staff. Business Services will be provided, in a manner consistent with the MEDC provided Smart Zone Technology Acceleration Model (Exhibit 2).

Anticipated services include:

* Mentorship & Coaching – Veteran technology entrepreneurs and startup executives will provide guidance regarding strategy and business planning, as well as overall coaching and mentorship. Examples: CompanyCrafters and Zorea Associates.

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Corporate & Legal – Senior legal professionals in highly respected law firms will be available to assist Smart Zone clients with all corporate and legal matters a company faces during Shaping and Launch. **Examples:** Dykema Gosset and Miller Canfield.

Finance – Professionals ranging from outsourced accountants and bookkeepers to interim chief financial officers (CFOs) will be available at the appropriate stage in the startup’s lifecycle. **Example:** Onset CFO, Gary Hessenauer.

Human Resources & Administration – Professionals can assist startups with challenges ranging from government filings to development of employee policy manuals, set-up/administration of employee benefits, recruiting.

Marketing – Smart Zone clients can receive assistance with branding and creation of a corporate identity, as well as preliminary marketing communications materials including a corporate website. **Example:** Enlighten and Eiler Communications.

Information Technology – Top-notch IT architects can help clients establish robust, scalable architectures for the IT portions of their products and operations.

Business Accelerator applicants will enter the Smart Zone through multiple business opportunity feeders. The stage of development of an applicant will determine what services and what path they follow through the acceleration process. The MEDC model clearly identifies that business opportunities will be rigorously screened throughout their multiple stages of business development. Initial screening will be conducted in a rigorous and methodical way, under the supervision of Smart Zone and Michigan Small Business Development Center (MI-SBDC) staff. The screening criteria will include: technology base involved, technical viability, commercial potential, strength of management team, and having a location within the Smart Zone service area.

Based on screening assessments, applicants will receive written feedback and those selected will receive access to additional Smart Zone services. Those applicants that are determined ineligible for Smart Zone Business Development services will be referred to the MI-SBDC and other partners for business counseling, education or other services. To further explain our approach, we have two missions: 1) to provide entrepreneurial community development and 2) to provide individual company business acceleration. We believe that this approach is consistent with the MEDC model and will deliver the appropriate service at the lowest delivery cost.

Community Development
At the Concept Development stage, business-training services are available to all community members. The services will educate and inform a broad segment of the population on entrepreneurial issues, business development, and the companies and industry segments supported by the Smart Zone.

These programs will primarily include education, networking, and general-purpose business support. Services may be free or paid, in various configurations or terms. In addition to promoting Smart Zone success stories, sponsors, and other stakeholders, and increasing the overall “fertility” of the area for growing businesses, these activities will promote the Smart Zone and the Ann Arbor/Ypsilanti area as brands.
Business Development
Business development services will only be available to companies or pre-venture teams that meet established criteria. These companies may be in the Concept Development or Feasibility stage. While some of the additional services will include more education and networking, the primary advantages of receiving screened services will include access to CEO and other Leadership Mentors, Accelerator facilities, and Business Advisory Team support.

The Smart Zone will employ the following secondary business opportunity assessment methods:

- Screening via the Smart Zone Boot Camp. Applicants with a business concept that is judged as having potential enter a two-week process of seminars and intensive business plan development with group mentoring that validates its feasibility as a sustainable business.

- A post Boot Camp review—We anticipate that of 10 concepts that enter the Smart Zone Boot Camp process, 2 to 3 will exit with an opportunity ready for the next stage of the Smart Zone business acceleration services. These companies and concepts will get coaching from Smart Zone staff and volunteer mentors in order to complete the market development or product development tasks defined during Boot Camp or other assessments at the Smart Zone.

- Entry into the Accelerator—At this stage, a company has been formed, a product or service has been defined and partially developed, full-time team members recruited and the team has demonstrated that they can attract resources including initial funding.

C: Implementation Plan

Because the Smart Zone will be building on and incorporating so many existing programs, we anticipate that we will have a fairly smooth launch.

The first four months of our efforts will be devoted primarily to internal organizational development and marketing/outreach efforts, but will also include many activities for our community development clients. These will include Technology Forums and Hi-Tech Tuesdays, two programs that are currently offered by the Ann Arbor IT Zone.

In addition, we will be finalizing the process for screening organizations to identify those eligible for the next tier of services. This will include eligibility criteria, due diligence process, and evaluation process.

While the Smart Zone will actively seek out young companies and emerging technologies, we also expect that prospective clients will seek us out and try to gain access to services. We will encourage these organizations to participate in Smart Zone programs, to support the "building talent" aspects of this program. However, we will ensure that individualized or limited-capacity services will be rigorously reserved for those companies (sought or seeking) with the greatest potential for growth and impact. We plan to offer our first Smart Zone Boot Camp in 4Q 2002.

Several companies that have worked with individual members of the Smart Zone network have expressed interest in applying for advanced placement into the Accelerator and later...
stages of the Smart Zone business development process. We believe that mentoring resources are available from some of our preferred providers as soon as our organization structure and funding is confirmed.

**D: Organizational Contributions**

**Ann Arbor IT Zone.** Several of the IT Zone’s most successful education and networking programs will be incorporated into the Smart Zone. In addition, we are confident that many of the IT Zone’s corporate sponsors will be converted to Smart Zone sponsorship; and the IT Zone’s membership and mailing lists will form an excellent base for initial outreach activities.

**UM Zell/Lurie Institute.** This office will coordinate the efforts of UM faculty and students as mentors, researchers, and interns in the service of client firms. It will also provide educational programs.

**EMU Center for Entrepreneurship.** This office will coordinate the efforts of EMU faculty and students as mentors, researchers, and interns, in the service of client firms. It will also provide educational programs.

**MI-SBDC.** The Regional office of the MI-SBDC will take the lead in providing intake services, assessing prospective clients, and recommending programs for accelerated growth. In addition, the three MI-SBDC Technology Counselors will be available to serve client companies.

**Service Providers / Business Advisory Teams (BAT).** The Smart Zone will build upon the BAT concept that has been successfully implemented on a smaller scale by the IT Zone and the MI-SBDC, Region 12. We will maintain a list of preferred service providers who will work, in teams and individually, with appropriate companies.

**E: Leveraging and Matching of MEDC Funding Resources**

Several levels of Business Advisory Services will be delivered to our clients as appropriate for their stage of business development. At each stage, we will attempt to match client needs with the most cost effective providers. For the later stage concept/company, we have negotiated retained services agreements in the form of a Memorandum of Understanding (MOU). See Appendix 5 for a summary of these agreements.

**F: Measurable Milestones and Outcomes**

See the “Managing the Program” section for the Measurable Milestones. More detailed plans are under development.
Building Talent

Young businesses have unique human resource needs that evolve in three stages.

- Initially every entrepreneur is a CEO and can benefit mostly from intensive coaching from an experienced mentor.
- Next, the entrepreneur needs to recruit a management team.
- Finally, the young company needs to develop a work force.

The Smart Zone includes components that will help local companies build talent through the coordination of existing resources and the establishment of new networks. This section will describe an organizational structure and implementation plan for helping target companies as they proceed through these three stages of growth. The expertise and contributions of various participating organizations will be incorporated throughout the process.

A: Organizational Structure

Phase 1: The entrepreneur
Entrepreneurs generally enter the business start-up phase with limited resources. They face many common issues, including difficult questions about their own commitment, the risks involved, the feasibility of their concept, and what actions need to be taken. The strategy of the Smart Zone will be to provide these beginning entrepreneurs with structured one-on-one relationships with one or more CEO mentors, and with ongoing immersion with other entrepreneurs.

We anticipate a three-level model to implement the personal coaching component of Smart Zone programming:

- The first step will be direct contact with either an Entrepreneur in Residence (EIR), or an experienced CEO mentor who will do initial screening based on individual readiness and technical compatibility with Smart Zone target niches.
- In step two, promising applicants will be connected to CEO mentors, with whom a formal coaching relationship will be established.
- The third step will entail additional referrals for consultations with mentors in functional areas of individual need such as product development, marketing, finance, and personnel recruitment.

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A network of volunteer mentors and paid consultants will be established, with formal agreements in place to assure individual commitments to the mentoring process from all parties. The agreements will be consistent with the goals and standards of the Smart Zone.

The Smart Zone will provide this individualized service to entrepreneurs, as well as related support services in organized group settings. Training and educational opportunities will be sponsored in both formal settings such as workshops and seminars, and through informal networking events. The entrepreneurs will therefore receive ongoing support through exposure to a network of both beginning and experienced entrepreneurs, along with additional sources of information and expertise.

**Phase 2: Recruiting a management team**

Intrinsic in the growth of a company is that the founding entrepreneur cannot do it alone. The CEO's job is to recruit a management team and delegate responsibilities. CEOs who are building companies based on the commercialization of their scientific ideas or technical expertise are often not equipped to carry out this essential function. The Smart Zone will position itself to aid target companies in this task. The Ann Arbor/Ypsilanti area is rich with diverse talent; participants in the local network will have the capability to reach across local, regional, national, and international borders to identify and recruit needed talent.

The Smart Zone proposes to employ a recruitment specialist/headhunter, in conjunction with MichBio (see Organizational Contributions section below) to provide direct support to the target companies. The recruitment specialist, with support from others in the Smart Zone network, will coach entrepreneurs on their role in building a management team and setting up a recruitment plan. More specifically, Smart Zone resources will be coordinated by the recruitment specialist to help in tasks such as developing job specifications, and identifying and interviewing candidates.

**Phase 3: Workforce Development**

To grow, start-up companies must have access to an adequately trained workforce. Successful young technology companies often grow in spurts, sometimes hiring dozens of employees at a time. Washtenaw County, as home to two major universities, a responsive community college, and many other educational institutions and avenues of learning, is in a key position to meet the workforce needs of growing technology companies.

On the other hand, academic institutions and programs are not set up primarily to place their students in jobs, nor are they quick to adapt their programs to the changing skill requirements of developing commercial technologies. The needs of start-up or fast-growth companies are not a central focus of higher education planning, nor are educational structures, degrees and credit-granting procedures totally compatible with pressing corporate needs.

The Smart Zone will establish activities, programs and interactions among academic and corporate partners that will address the gap that currently exists between them. Many resources are already in place that can be incorporated and adapted to the goals and programs of the Accelerator network. The heart of the model will be to develop student and faculty assets on behalf of target companies, industries, and technology-based sectors. A network of university and business volunteers will form the basis for the development of specific initiatives.
B. & D: Participant and Organizational Expertise and Contributions

The Ann Arbor/Ypsilanti Smart Zone accelerator program will coordinate the activities of an impressive and experienced group of individuals and organizations. Collectively, they will be organized into a network that supports selected start-up businesses as they move through the process of building and expanding the talent base that is essential to their growth.

The structure and resources of the Smart Zone will stimulate additional follow-up activities and networking opportunities that will enhance and strengthen existing programs. The Smart Zone will coordinate the resources of a network of people and organizations, and will establish support structures and plan activities that will significantly increase the ability of target companies to be successful in the fast growth model that provides the framework for acceleration at the Smart Zone.

Ann Arbor IT Zone Base

At the heart of the local experience base that will contribute to successful business development through the Smart Zone is the history of the Ann Arbor IT Zone of fostering networks of entrepreneurs. The success of the Boot Camps and cooperative programs with the Zell/Lurie Institute of the University of Michigan can be built on for future activities.

Recruitment

With respect to recruitment activities, the Smart Zone proposes to leverage the infrastructure of one of its partners, MichBio, to initiate a recruitment service. With dedicated Smart Zone funding, a recruiter focused on the information technology sector could provide a similar service to the IT industry. The MichBio Grant provides for shared fees for its member companies, and we would adopt the same model to reduce the cost of this service to our clients. Since we are located in the same facility, we can easily collaborate to reduce the costs for both entities. In addition to serving as a personnel and recruitment mentor to target companies, the recruiter will establish strong relationships with the placement offices and selected academic programs at the educational institutions in the county, particularly the University of Michigan, Eastern Michigan University, and Washtenaw Community College. We will explore a combined job posting service to provide mutual economies of collaboration.

University Connections

At the heart of the Workforce Development activities will be close liaison between the entrepreneurial community and key individuals and units at the University of Michigan and Eastern Michigan University. Components of the program will include student internships in start-up companies, and working with faculty to develop training modules and course components that include directly applicable skills. Programs will be developed to acquaint faculty and students with the unique environment and needs of start-up companies.

The Ann Arbor IT Zone has an existing strong link to the TechStart program at the U of M, and has placed interns from a number of academic programs in start-up companies. That relationship has extended to the Smart Zone, as four U of M interns are currently working on the Smart Zone Accelerator project. The U of M Technology Transfer Office and Information Technology Central Services are deeply involved in the development of the Smart Zone and committed to being major partners in the network.
The Michigan Small Business Development Center network includes both Eastern Michigan University and Washtenaw Community College. At EMU, its SBDC is a part of the Office of Business Partnerships that also houses the Center for Entrepreneurship and the Ypsilanti Export Assistance Center of the U.S. Department of Commerce. The EMU College of Business will be a major partner in the Smart Zone, as will EMU's Institute for Community and Regional Development (ICARD), which has been actively committed to the Smart Zone throughout its development. ICARD's programs that can contribute to specific Business Accelerator workforce development activities include the Project Linking Academics, Careers, and Employment (PLACE), office, which focuses on internships and modular training for students who need to add technology components to their curricula.

EMU activities providing examples of programming that will enhance the Smart Zone include two current grants. The Center for Entrepreneurship has a grant from the Michigan Economic Development Corporation that includes providing interns to high-tech organizations; and the Sloan Foundation has sponsored a survey of regional technical workforce development needs, anticipating subsequent curriculum development. Participating departments include Biology, Chemistry, Mathematics, and Computer Science.

C: Implementation Plan

Since many of the educational programs are extensions of existing initiatives, we believe we can increase the number and frequency of these activities relatively quickly and easily. See Milestones under Managing the Program section for timelines and objectives.

Additionally, we will develop specific programs to mentor and coach research personnel who want to consider transitioning to an entrepreneurial role about the life style and other challenges in adapting to the world of commerce. We anticipate that program development for this audience will be able to re-purpose much of the existing programmatic content to speak to this specific audience.

Examples include:
- Business Plan Boot Camp for Scientists
- Introduction to Business Planning for Scientists
- Why you need a Market for a Great Idea
- How to Select a Business Partner CEO so You Can Stay in the Lab

These and other ideas will be developed to supplement the activity of and partnership with the Business Development teams at our Universities. Since most of the material already exists, we can start delivering these programs within 90 to 120 days of Grant funding.
E: Leveraging and Matching of MEDC Funding Resources

The Ann Arbor IT Zone and its partners have received multiple prior MEDC Grants to fund entrepreneurial education activity. We will re-purpose content as described above from the following programs:
- Great Lakes Venture Quest
- IT Zone Hi-Tech Tuesday Finance and Business Planning Series
- IT Zone Boot Camp
- UM CVP Entrepreneurial Finance Program
- UM CVP Growth Capital Symposium

Additionally, as described earlier we have substantial amounts of pro-bono time commitments from our network of venture capitalists and service providers. We have used the Business Accelerator proposal as catalyst to generate increased commitments of time and energy to conducting no-charge education and training. Not only for the venture fundable clients of the Accelerator, but for all prior levels of experience. This activity will build future opportunities and sustain the entrepreneurial community in our region.

F: Measurable Outcomes and Objectives

See the “Managing the Program” section for the Measurable Milestones. More detailed plans are under development.
A: Participant and Organizational Expertise

Based upon the attractiveness of the entrepreneurial opportunities in the Ann Arbor/Ypsilanti area, most of the Michigan-based venture capital firms are located in Ann Arbor. We have established a robust network of financing partners who have committed financial and in-kind support to the Smart Zone. The committed partners are:

- Arbor Partners
- Arboretum Ventures
- Ardesta
- M Group
- North Coast Technology Partners
- Waypoint Ventures

While each of these participants will occasionally fund a seed-stage company, their focus must be on later stage opportunities (Series A or later) in order to minimize their risk and maximize the return on their time. We believe that they can be attracted to invest in more early- and seed-stage companies, which can generate more attractive returns, because the Smart Zone Business Accelerator can provide rigorous screening and other services to both reduce the risk and reduce their time commitments.

B: Organizational Structure

Each funding partners has agreed to participate on an Investment Advisory Board. This Board will be the primary screening process for admission to the Accelerator, and will be the final arbiter of which clients merit funding support. Additionally, Board members will operate as Entrepreneurs in Residence for the Smart Zone as they mine technology opportunities in their respective area of expertise.

Even with multiple later stage venture investors in the community, the historical challenge for technology-based ventures has been the lack of pre-seed and seed stage capital. In order to fill this gap, we are soliciting a pool of funding that we can invest in early stage companies that chose the Smart Zone as their acceleration partner. This funding will be managed by a seed stage funding partner who will organize and underwrite a network of angel and venture capital funds.

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investors who desire to mine the rich technology base at UM, EMU, and in the surrounding area. A term sheet is under negotiation at the time of this writing and will be discussed in detail at our Oral Presentation scheduled for July 9, 2002.

Seed-Stage Funding Partnership Proposal
The Smart Zone has written the following request for proposal for a preferred seed-stage funding partner. The RFP includes the following requirements:

- Organize and underwrite a pool of investment capital to invest specifically in seed stage technology companies with a minimum commitment of $400,000 for mutually selected Smart Zone clients.
- Provide $50,000 in sponsorship funding to support the startup of the Ann Arbor/Ypsilanti Smart Zone Business Accelerator.
- Accept a Board of Directors role on these related entities:
  - Ann Arbor IT Zone
  - Ann Arbor/Ypsilanti Smart Zone Business Accelerator
  - Ann Arbor/Ypsilanti Local Development Finance Authority
- Provide the equivalent of ½ of an FTE as an in-kind sponsorship to perform technology mining, concept due diligence, and company coaching of Smart Zone applicants.

The General Partner of the Funding Partnership will perform the following duties:

- Solicit other venture capital partners and angel investors as LP’s
- Coordinate corporate sponsorships as gap funding partners
- Develop UM Alumni angel network
- Develop Series A and later funding relationships

The Smart Zone will encourage participation in the Funding Partnership, but other venture capital firms may choose to retain prior arrangements with the Smart Zone that involve substantial in-kind participation. They will have the right to co-invest with the Funding Partnership on any deal in which they participate as an advisor.

Use of Investment Funds

The pool of investment funding will provide support for these stages of venture funding:

- Pre-seed (up to $100,000) to complete a business plan and perfect patent applications.
- Seed (up to $250,000) to complete a proof of concept or retain initial customer(s).

Investment Terms
With the guidance and consent of its Funding Partnership Advisory Board, the Smart Zone will invest in its client companies in the pre-seed and seed-stage rounds under these terms:

- Using a model agreement for early stage funding, the Funding Partnership will receive a debt instrument convertible into preferred equity. Warrants will be issued at a price fixed at the first priced round by outside investors. Early stage investors, including the Funding Partnership, will receive pro rata preferred participation rights in each subsequent round in which they choose to participate, including a Series A round.

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• Outside of their commitment for the above early stage funding, the Funding Partnership or funding partnership member may make direct investments in any round of financing for Smart Zone clients, including a Series A or later round.

• Due to the acceleration services of the Smart Zone, when a client is able to raise money from sources outside the Funding Partnership, the Smart Zone operating budget will receive 5% of the proceeds of the financing round as success-based compensation for its acceleration services. This may be taken in cash or as an equivalent share of the investment in the round.

• While the Funding Partnership will be a first offer source of capital, Smart Zone clients may arrange their own financing from other sources.

C: Implementation Plan

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<thead>
<tr>
<th>Action</th>
<th>Status / Completion Date</th>
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<tbody>
<tr>
<td>1) Solicit Preferred Funding Partner</td>
<td>Term Sheet in review. Complete negotiation by July 8, 2002</td>
</tr>
<tr>
<td>2) Solicit all Regional VC’s</td>
<td>MOU’s executed by June 27, 2002</td>
</tr>
<tr>
<td>3) Create “The Place where Angels Hang-out”</td>
<td>Process under way; complete by Dec. 2002</td>
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D: Organizational Contributions

In addition to committing sponsorship and capital, each of the Venture Capital Partners has agreed to provide significant pro-bono time to perform as EIR for the Smart Zone. They will do the technology mining to find the undiscovered innovator whose intellectual property addresses an unmet market need. Additionally, the EIR will perform due diligence on opportunities that pass the initial screening criteria for admission to the Smart Zone and the Accelerator. The individuals and their roles are detailed in Appendix 1.

E: Leveraging and Matching MEDC Funding Resources

We believe that the biggest unmet need in our region's Venture Value Chain is the availability of adequate seed-stage venture capital. The MEDC has initiated two seed-stage Angel Investor Funds that are focused on early stage Michigan-based companies. The Champion and the Smart Zone Advisory Board that have existing relationships with both the new entities are collaborating to create networking events that will attract additional seed-stage capital to our region. Arborotum Ventures and the Smart Zone will co-sponsor these events and will showcase emerging technology-based companies in the Business Accelerator. These events will generate positive “buzz” and improve the image of the community as a place to start and grow technology companies.

All of the above funding partnerships are in place and documented. Cumulatively, they have committed $100,000 in cash and $500,000 of in-kind services to fund and support the Community Development mission of the Smart Zone and an additional $250,000 in capital for seed-stage investment in Smart Zone Accelerator clients. The Seed Stage Funding Partnership

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has committed to raise at least an additional $200,000 in the first year to supplement their committed amount.

F: Measurable Milestones

We will measure our success in part based upon the amount of money committed to fund our early-stage companies and in the number of companies that get follow-on venture funding from our early-stage partners and our expanded network of regional and national venture capital firms. This additional validation of the commercial potential of a Smart Zone client will demonstrate that our acceleration service model is sustainable.

See the "Managing the Program" section for the Measurable Milestones. More detailed plans are under development.
Managing the Program

One of the Ann Arbor/Ypsilanti communities greatest strengths is its people. MEDC’s best practice research has identified as key to our success will be attracting and retaining a “Champion”. The Champion will be the driving force who creates and grows the network of partners envisioned for the Smart Zone.

A: Participant and Organizational Expertise

The IT Zone has built a mostly volunteer network of community leaders, business service providers, and entrepreneurs to develop and deliver the educational programs and grow the organization. This structure—a very engaged set of volunteers and a few paid staff to manage the administrative and volunteer assignments—has worked well to deliver outstanding programs on a minimal budget.

The Smart Zone will drive this organizational model up a notch. Retaining the IT Zone core of engaged volunteers to manage events and solicit open forum educational event membership, the Smart Zone will leverage two paid staff positions to increase the level of membership services, as well as to increase the number and quality of events. We anticipate using our executive director and other senior staff resources to solicit corporate sponsorships, foundation grants, and continually increase the Smart Zone's public relations visibility.

To assist with the funding of pre-seed Accelerator companies, the Smart Zone will recruit angel and other seed-stage investors to provide $25K to $100K of initial financing for companies screened by the Accelerator. This funding entity will be a separate LLC and referred to as the Funding Partnership. A portion of the return on investment, after a preferred return for the investors, will be used to fund Smart Zone operations and reward management for performance.

The Champion
Chuck Salley has committed to serve as the Champion. Once the Smart Zone closes on sufficient funding commitments to be a fully sustainable entity, a co-champion will assist Chuck. At that point, the Smart Zone will attract a venture capital, partner-level individual on a full-time basis. Chuck will serve for an initial term of not less than the two years of the MEDC Grant. The Smart Zone will be constantly recruiting talent among the local VC firms' junior partners, seasoned entrepreneurs, and accomplished executives. Individuals who establish a track record of producing results for the Accelerator and building the Smart Zone
network will be considered as candidates to succeed or augment the role of Champion in later years.

The Smart Zone is confident it can accomplish the milestone goals envisioned for the accelerator by its second year. Chuck has worked with each of the major stakeholders in this collaboration:

- He is a member of the UM TechTransfer Advisory Board.
- He has mentored the Zell / Lurie student intern teams as they assisted a network infrastructure company spin out from Merit Networks. He assisted with the business plan and then to raise a major round of venture funding.
- With Kurt Riegger and Ken Nisbet, he conceived, planned, and delivered the highly successful IT Zone Boot Camp twice. This 3-day camp is an intensive business-planning seminar that accelerates business concepts to business plans within two weeks rather than four months. Entrepreneurs rated this camp one of the best experiences of their life.
- He has mentored the student participants in the Wolverine Venture Fund.
- He has actively participated as a lecturer, coach, and judge in multiple Great Lakes Venture Quest Business Plan competitions.
- As an angel investor, he has mentored, coached and invested in several local entrepreneurial companies, including NextHop, Lean Experts, and TerraSeer.

As a result of these recent accomplishments and 30 prior years of experience as a sales leader and two-time founder of an entrepreneurial business, Chuck has a broad network of relationships with venture capital, University TechTransfer, and the local business community that will provide the connections that the Smart Zone and its clients require for success.

During the first six months of the Smart Zone launch, Chuck will be joined by Kurt Riegger, who has an entrepreneurial and venture investing background. Kurt has been a keen supporter of the local high tech community, including the Software Council. He is a founding member of the IT Zone and other statewide initiatives such as Cyberstate.org and the IT Summit. He has also mentored the presidents of several online media outlets for technology news in the State as they were launching.

We believe that the network of partners will be of vital importance to the individual selected as Champion. Therefore, we will build a powerful network to support the long-term success of the Smart Zone. Chuck will be supported in his Champion role by an advisory board of experienced venture capital partners who will provide substantial in-kind services to the Smart Zone. A partial list includes: Greg Buck, Jan Garfinkle, Tim Petersen, and Marc Weiser.

**B & D: Organizational Structure and Contributions**

The Smart Zone will use an organization of staff positions and services providers as described in this section.
Staff Positions

Executive Director (Champion) – responsible for setting the strategic direction of the Smart Zone, reporting progress to the Board and key stakeholders; soliciting sponsorships from foundations and corporations. The executive director will chair the Investment Advisory Board.

Managing Director (Co-Champion) – responsible for building the road maps for the accelerator engagements and tracking the results of accelerator companies; will assist the Executive Director in fund raising for the Smart Zone and accelerator companies.

Educational Services Manager – responsible for all accelerator operations and accounting, administrative tasks for the Executive Director, all program reporting requirements, and coordinating the schedules of service providers; will serve as a communications hub for the Smart Zone resources. This person will manage the membership services and be the programs coordinator for weekly, quarterly, and Boot Camp events. This is a full-time position. (Several candidates are available to fill this position.)

Program Coordinator – responsible for all of the educational programs. This would include content, speakers, venue and publicity. This person will coordinate joint programs with other organizations as well as coordinate a community calendar of events. This full time position will have a part-time assistant Program Services.

Membership Services – responsible for the marketing programs and promotional services to attract and retain companies for sponsorships as well as build attendance at programs.

Program Services – responsible for coordinating the volunteers to deliver the educational programming content for High Tech Tuesdays, Brown Bag seminars, informal gatherings of entrepreneurs, and IT Forum events. This position is currently unfilled.

Technology Advisory Board – will be established to advise the Accelerator on the direction of new technologies and emerging business clusters in the state. The TAB will assess the fit for new sub-sections within a market for fit with the Accelerator’s goal of finding high potential companies. Some Board members from the IT Zone and UM Tech Transfer Advisory board will serve on the Smart Zone Technology Advisory Board.

Investment Advisory Board – will be established to make the seed-stage funding decisions for deals presented by the Champion and core team and will be composed of members of the Preferred Funding Partnership and the Executive Director, Managing Director, and all EMO partners.

Service Providers – The initial Smart Zone staffing will be composed of the Champion, an Assistant Director, and an administrative support person. We have retained a network of qualified specialists who will provide substantial in-kind support to the Smart Zone.

For technology mining, we will use a combination of industry-focused venture capital partners to assess the commercialization potential of the technology available at Universities and in the local community. For example:

June 28, 2002
<table>
<thead>
<tr>
<th>Partner Organization</th>
<th>Represented By</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arbor Partners</td>
<td>Jason Burr</td>
<td>Entrepreneur In Residence (EIR) for Information Technology</td>
</tr>
<tr>
<td>Arboretum</td>
<td>Jan Garfinkle</td>
<td>EIR for Life Sciences</td>
</tr>
<tr>
<td>Ardesta</td>
<td>Vinay Gupta</td>
<td>EIR for MEMS</td>
</tr>
<tr>
<td>Eastern Michigan University</td>
<td>Brian Anderson</td>
<td>Director Research Development</td>
</tr>
<tr>
<td>M Group</td>
<td>Greg Buck</td>
<td>EIR for Information Technology</td>
</tr>
<tr>
<td>North Coast</td>
<td>Kurt Riegger</td>
<td>EIR for Information Technology</td>
</tr>
<tr>
<td></td>
<td>Mina Sooch</td>
<td>EIR for Life Sciences</td>
</tr>
<tr>
<td>University of Michigan</td>
<td>Marvin Parnes</td>
<td>Vice President Research</td>
</tr>
<tr>
<td>Waypoint Ventures</td>
<td>Tony Grover</td>
<td>EIR for Information Technology</td>
</tr>
<tr>
<td></td>
<td>Marc Weiser</td>
<td>EIR for Telematics</td>
</tr>
</tbody>
</table>

For coaching and mentoring, we will use experienced CEOs who have proven ability to shape, launch, and scale a new enterprise, such as:

<table>
<thead>
<tr>
<th>CEO</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lisa Kurek</td>
<td>BioBusiness Consultants</td>
</tr>
<tr>
<td>Jim Price</td>
<td>CompanyCrafters</td>
</tr>
<tr>
<td>Carlos Zorea</td>
<td>Zorea Associates</td>
</tr>
</tbody>
</table>

C: Implementation Plan

We have done substantial best practices research into the best business model for the Smart Zone. In addition to the document presented by the MEDC, a UM TechStart team created a detailed questionnaire that mapped the (ACE) Accelerator Critical Elements. This questionnaire and the research results are available upon request. The major findings of the research are:

- The Champion must raise significant state, local, and economic development funding as the educational mission of the Business Accelerator is not sustainable without subsidy.
- The pricing model for services for the Accelerator client is variable but should be aligned with the entrepreneurial goals and the first round of funding. A best practices financing agreement will be used for early rounds of funding.
- The feeders for new companies and emerging technologies are listed in rank order in the Technology Map in Appendix 4.
- University technology transfer is greatly enhanced with standard licensing models and sponsored research as a prelude to full licensing. These two practices can significantly speed up the licensing process and positively affect the value of the University Intellectual Property license to early stage companies.
- The Smart Zone must clearly articulate its goals and mission to the broader business community. The level of corporate sponsorship and involvement can be high, as
evidenced by Digital Greenhouse in Pittsburgh and Edison BTC in Columbus if the message is regularly communicated.

Based upon this research, we have adopted the following business model:

- Provide entrepreneurial education and networking events that are low cost and available to the entire community. This portion of the annual operating budget will be funded by public money, an MEDC Grant, and Local Development Finance Authority funds. We expect that the volunteer organization and low membership fees will allow this activity to break even.
- For selected companies, provide intensive mentoring, coaching, and financial support. This portion of the annual budget will be funded by the Funding Partnership, which will make investment decisions based upon an expected venture capital return on investment.

Unlike the traditional incubator, which has a large fixed overhead expense in real estate, the Smart Zone will be a tightly linked network of resources; all partners will be measuring success based upon the number and quality of the companies that are accelerated, not on the occupancy rate of a major real estate facility. We will deliver services with highly screened and retained partners rather than via a large in-house staff. We will have a dedicated pool of pre-seed and seed-stage funding that nurtures concepts into companies that can in turn attract early-stage venture funding from our regional and national venture capital network.

**E: Leveraging and Matching of MEDC Funding Resources**

The short-term goal of the Smart Zone is to demonstrate the sustainability of our business model post MEDC grant funding support. Therefore, we will focus on proving the concept by successfully accelerating at least one company by December 2003. This will validate the concept, the management team, and the partnerships, so that we can raise the corporate sponsorship support to sustain and grow the accelerator.

**F: Measurable Milestones and Outcomes**

The highlights of the preliminary implementation plan for the Smart Zone are:

<table>
<thead>
<tr>
<th>Time Frame</th>
<th>Highlights</th>
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</table>
<pre><code>        | - Initial education events expanding upon existing Ann Arbor IT Zone programs. |
</code></pre>
| * 4Q 2002  | - First two client companies accepted into Smart Zone Business Accelerator.  
            | - Expanded educational schedule including first quarterly Boot Camp. |
| * 1Q 2003  | - Screen and accept three client companies into Smart Zone Business Accelerator.  
            | - Expanded educational schedule including second quarterly Boot Camp. |
| * 2Q 2003  | - Screen and accept three client companies into Smart Zone Business Accelerator.  
            | - Expanded educational schedule including third quarterly Boot Camp. |

More detailed plans are under development.

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Focusing Regional Assets

Social networks have the power to focus and multiply the success of the total community. To borrow Sun Microsystems' tag line—"The Network is the Computer"—we are building a "Business Network that is the Smart Zone". What makes the Smart Zone work is our network of educators, business students, technology innovators, experienced entrepreneurs, mentors, service professionals and financing partners.

For the technology cluster in the Ann Arbor/Ypsilanti region, the IT Zone is a focal point for information technology and MichBio is the focal point for the life sciences. The IT Zone has recently broadened its activity to include partners from other industries, recognizing that information technology is now a key component of most technology-based businesses. This expansion will not compete with other initiatives or groups, but will create additional partnership arrangements and enable more sharing of common resources to support the entire region. Besides the relationship with MichBio, the IT Zone is discussing/negotiating relationships with the MEMS Consortia and the New Enterprise Forum.

A: Participant and Organizational Expertise

Located in an area rich with organizations that service and support IT, biotechnology, and advanced manufacturing, the Smart Zone will reach out to these organizations and partner with them to provide key services. We will offer joint sponsorship of educational programs, cross promotion of major events, and will coordinate our activities to match in time and scope and specifically not to compete. We intend to leverage established assets wherever possible.

An extensive list of local organizations, such as the New Enterprise Forum, High Tech Human Resources, National Center for Manufacturing, and the Michigan Virtual University, support companies in the Ann Arbor/Ypsilanti area. We will systematically partner with these organizations as we identify overlapping program content, events, constituencies, or best practices to share.

We have identified three organizations with which we will negotiate and build relationships within the first year. Building bridges to these and other organizations will be one of the key responsibilities of the Champion. As many of these relationships are already partially in place or being negotiated, the Smart Zone is confident that the Champion can finalize these agreements and build other equally valuable relationships. A comprehensive list of partner
organizations has been developed, and that list will be re-prioritized quarterly based on
synergy and complementary fit.

**B: Organizational Structure**

**MichBio Relationship**
MichBio is the Michigan Biotechnology Association, a statewide industrial organization that
is headquartered in Ann Arbor. They provide their members with education and advocacy,
and also perform contract research and other services in support of this emerging business
sector. They recently were awarded an MLSC Grant to provide subsidized recruitment
services for their members with the goal of bringing back to Michigan the critical talent
needed to launch and fund companies around the wealth of biotechnology in our universities.

MichBio is currently a tenant in the LaunchPad for their contracted research activity, and the
IT Zone has started to offer joint education and networking events. As a result of the Smart
Zone focus, we will accelerate our relationship to include:
- Joint HiTech Tuesdays and IT Forums, education, and networking events
- Shared administrative and facility infrastructure
- Shared recruiting infrastructure to reduce mutual program costs
- BIO Boot Camp, intensive business plan mentoring customized for BIO

**MEMS Consortia Relationship**
With the help of Ardesta, a key partner in the Smart Zone, we will build a relationship with
the MEMS Consortia that helps to advance awareness of emerging nanotechnologies and the
MEMS industry. We will work to foster a relationship with all of the members of the MEMS
Consortia to increase the visibility of nanotechnologies available for commercialization at
UM, as well as forming companies around the most promising technologies at our partner
Ardesta.

**New Enterprise Forum (NEF) Relationship**
One of the stalwart organizations promoting entrepreneurs in the community and connecting
capital with entrepreneurs, NEF will partner with the Smart Zone to jointly find projects co-
supporting each of the respective constituencies. While still in the formative stage, these
activities would include the continuation of current joint programs, cross promotion, and
referrals, as well as the loaning of NEF committee members to work on Boot Camp and other
entrepreneurial education programs. The monthly meeting of NEF will be a place to showcase
Smart Zone members and Accelerator companies.

**Leveraging Corporate Relationships**
We propose to use corporate partnerships as a way to solicit feedback on the technologies and
opportunities the corporate partner finds important. This feedback will help to generate
targeted, early-stage product development projects related to those opportunities. These
projects will be designed to leverage the world-class technology expertise and patents of our
Universities and the surrounding communities. Two examples will provide the best
explanation of this process.

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As a major employer and university research partner, Pfizer has emerging bioinformatics needs, and the cluster has these resources:
- UM has a major bioinformatics program
- UM and EMU have strong Computer Science programs
- Substantial information technology entrepreneurial company experience

Additionally, Ann Arbor has a cluster of successful and emerging network infrastructure companies. With the addition of UCAID / Internet2, and Merit, this cluster represents a major opportunity. The companies include:
- Arbor Networks
- Interlink Networks
- iENG/Cisco
- NextHop

As mentioned earlier in the Identifying the Technology section, the technology map indicates several high potential clusters of activity. Once we have achieved success in one cluster area, we will branch out and select additional focus areas based upon the same criteria as above: corporate sponsorship and technology excellence.

University / UM Relationships
The IT Zone already has these collaborations with the University of Michigan:
- Center for Venture Capital and Private Equity Finance, Boot Camp, Growth Capital Symposium, and Entrepreneurial Venture Finance (EVF). Within this relationship, we intend to prepare Business Accelerator companies to qualify to present at the Growth Capital Symposium and refer entrepreneurs to the EVF courses. We will continue to receive best practices consulting from the Center for Venture Capital.
- Office of the Provost and Information Technology Central Services. Within this relationship, we expect continued sponsorship, network connectivity and educational program support.
- Office of Technology Transfer. We intend to extend OTT sponsorship, Tech Start success, and program staff support.
- Zell / Lurie Institute. We will continue to leverage Dare to Dream, MBA Summer Internships, Boot Camp support, the Entrepreneur Club and Venture Clubs, Great Lakes Venture Quest, and other business plan competitions related to the University business schools.

The Smart Zone management team was responsible for fostering or creating most of these relationships, and will expand upon the frequency and depth of these programs.

University / EMU Relationships
Earl Potter, Dean of the College of Business, will assist the Smart Zone to develop similar programs and relationships with Eastern Michigan University:
- College of Business and its Center of Entrepreneurship
- Institute of Community and Regional Development (ICARD)
- Office of Research Development
E: Leveraging and Matching MEDC Funding Sources

Local Development Tax Authority
The cities of Ann Arbor and Ypsilanti that make up the Smart Zone and are home to the Universities have executed a dual community Local Development Tax Authority (LDFA).

The LDFA has approved the use of tax incentive financing for the Smart Zone. The LDFA funding will grow from $75,000 in 2003 to $500,000 in 2008. This continuing support and our demonstrated results will permit us to attract sponsorship to sustain and grow the Smart Zone.

Smart Zones have a competitive advantage over economic development programs, in that they require that partnerships link business development and location to the technologies and technology transfer functions of the University of Michigan and Eastern Michigan University. This tight collaboration not only creates high paying jobs, it also develops the student and faculty-learning environment by providing real-world experience to supplement classroom materials.

F: Measurable Milestones and Outcomes

Key Activities Supported
The Smart Zone will endeavor to sponsor or coordinate a joint event with each of the major organizations with which it partners. For the first year, we expect to co-sponsor events with MichBio, MEMS Consortia (or if not active, then Ardesta), and NEF. The Smart Zone will also be in-kind sponsors of the Great Lakes Venture Quest and the Growth Capital Symposium.

Key Network Connections
Above we have specifically identified the action that the major partner relationships will take with the local universities. Three important organizations in year one, and an example for the corporate partners. Summarized below are the other key partner relationships that will create a network in the early years:

- **Ardesta**, a MEMS industry accelerator will collaborate on entrepreneurial education and provide incubator services for post early-stage acceleration services for MEMS-related companies. Ardesta will also share best practices experience with the Smart Zone.
- **Michigan Virtual University** will collaborate on educational programming.
- **National Center for Manufacturing Sciences** will collaborate on events.
- **Michigan Technology News, Great Lakes IT Report and Computer-Directory** and other online news media outlets will help with media coverage and relations.
- **Eller Communications** and other marketing and public relations firms will actively promote the region consistent with the branding strategy for Ann Arbor / Ypsilanti Smart Zone.
- **Business Service Providers** such as Butzel Long, Dykema Gosset, Miller Canfield, and PricewaterhouseCoopers, will serve as members, sponsors, and program participants.

June 28, 2002
- **Venture Capital Firms** such as Arbor Partners, Arboretum, Ardesta, M Group, North Coast, and Waypoint Ventures will serve as members, sponsors and program participants.

- **Successful entrepreneurs** such as Hal Davis, Gene Graber, Jim Price, and Kurt Riegger, will serve as members, sponsors, and program participants.

More detailed plans are under development.
The business network is the Smart Zone in the Ann Arbor / Ypsilanti area

As demonstrated in this proposal, we have an established network on which to grow our Business Accelerator services that will help entrepreneurs succeed and that, in turn, will benefit the community by providing an attractive environment for technology-based businesses. We will create a network and networking opportunities for all participants in our Smart Zone activities. We will spend a substantial amount of our time and resources creating, hosting, and supporting others to create events where this networking can flourish. In doing so, we will create sustainable change in the perception and reality of our technology-based business creation capability in this area and throughout the State of Michigan.
## Appendix 1: Our Partners

<table>
<thead>
<tr>
<th>Partner Organization</th>
<th>Description</th>
<th>URL</th>
</tr>
</thead>
<tbody>
<tr>
<td>University of Michigan:</td>
<td>The mission of the Center is to expand, leverage and disseminate its core knowledge of entrepreneurial finance, venture capital and private equity investment for the benefit of its constituent community.</td>
<td><a href="http://www.umich.edu/~cvpmbs/index.html">www.umich.edu/~cvpmbs/index.html</a></td>
</tr>
<tr>
<td>Center for Venture Capital and Private Equity Finance</td>
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<tr>
<td>David J. Brophy, U-M Associate Professor of Finance</td>
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<tr>
<td>University of Michigan:</td>
<td>ITCS provides central information technology services to the U-M community. These services include managing and operating the central computing, networking, and telecommunication systems.</td>
<td><a href="http://www.itd.umich.edu/itd">www.itd.umich.edu/itd</a></td>
</tr>
<tr>
<td>Office of the Provost and Information Technology Central Services</td>
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<td></td>
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<tr>
<td>Alan McCord, Executive Director</td>
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<tr>
<td>University of Michigan:</td>
<td>UM Tech Transfer is the University organization responsible for the transfer of University technology to the marketplace. Our organization consists of our central Office of Technology Transfer and two satellite offices in the Medical School and the College of Engineering.</td>
<td><a href="http://www.techtransfer.umich.edu">www.techtransfer.umich.edu</a></td>
</tr>
<tr>
<td>Office of Technology Transfer</td>
<td></td>
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<tr>
<td>Ken Nisbet, Executive Director</td>
<td></td>
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<tr>
<td>University of Michigan:</td>
<td>The Institute seeks to advance entrepreneurial interests of the community by offering networking opportunities; contributing to local and national entrepreneurial efforts; advancing new venture development and supporting research in the area of entrepreneurship.</td>
<td><a href="http://www.zli.bus.umich.edu">www.zli.bus.umich.edu</a></td>
</tr>
<tr>
<td>Samuel Zell and Robert H. Lurie Institute for Entrepreneurial Studies</td>
<td></td>
<td></td>
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<tr>
<td>Thomas Kinnear, Executive Director, U-M Professor of Marketing</td>
<td></td>
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<tr>
<td>Eastern Michigan University:</td>
<td>To support the economic development of Southeastern Michigan by preparing graduates to perform effectively in an “information age” business environment that is being shaped by a global economy AND by helping business leaders understand and address the forces shaping their environments as they create and recreate businesses.</td>
<td><a href="http://www.emich.edu/public/cob">www.emich.edu/public/cob</a></td>
</tr>
<tr>
<td>College of Business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earl Potter, Dean</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eastern Michigan University:</td>
<td>The Office of Research Development affirms and supports the mission of Eastern Michigan University to promote learning, research, service, and training. ORD's goal is to provide service of constantly improving quality in all aspects of sponsored projects.</td>
<td><a href="http://www.gradord.emich.edu/pages_ord/aboutord">www.gradord.emich.edu/pages_ord/aboutord</a></td>
</tr>
<tr>
<td>Office of Research and Development</td>
<td></td>
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<tr>
<td>Brian Anderson, Executive Director</td>
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</table>

June 28, 2002
<table>
<thead>
<tr>
<th>Partner Organization</th>
<th>Description</th>
<th>URL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Michigan University: Institute for Community and Regional Development&lt;br&gt;Charles Monsma, Executive Director</td>
<td>ICARD carries out public service on behalf of Eastern Michigan University through five areas (Public Service Education, Geographic Information Services, Economic and Workforce Development, Management Information Systems, Groundwater Resources &amp; Education) of outreach. We promote activities that involve faculty and students in problem solving projects in the community.</td>
<td><a href="http://icard.acad.emich.edu/">http://icard.acad.emich.edu/</a></td>
</tr>
</tbody>
</table>
| Eastern Michigan University: Center for Entrepreneurship<br>Dr. Pradeep Chowdhry | -Foster & nurture successful entrepreneurship and innovation.  
-Encourage students in the creation of new business by dissemination knowledge about the various aspects of entrepreneurship.  
-Facilitate interaction between the entrepreneurial community and the students | www.emich.edu/public/cob/entrepreneur |
<p>| Washtenaw Community College                   | Comprehensive training partnerships with local and national businesses and organizations, and transfer agreements with the University of Michigan, Eastern Michigan University, and UM-Dearborn make WCC an important asset in the economic and academic welfare of its community. | <a href="http://www.wccnet.org">www.wccnet.org</a>              |
| Michigan Small Business Development Center&lt;br&gt;Charlie Penner, Regional Director | The Michigan Small Business Development Center at Washtenaw Community College is one of the 12 regional offices statewide, providing services and support to the Michigan small business community in the areas of counseling, training, research and advocacy. | <a href="http://www.mi-sbdc.org/region12">www.mi-sbdc.org/region12</a>    |
| MichBio&lt;br&gt;Jan Gensheimer, Executive Director | Non-profit organization dedicated to driving the growth of the life sciences industry in Michigan. MichBio provides networking and educational events, offers a web portal to industry-specific state and national information, addresses public policy, and is focusing on the human resource, funding and infrastructure issues affecting Michigan's biosciences industry. | <a href="http://www.michbio.org">www.michbio.org</a>             |
| Butzel Long                                   | Butzel Long is one of Michigan's leading law firms, with over 200 lawyers and seven offices in Michigan and Florida.                                                                                     | <a href="http://www.butzel.com">www.butzel.com</a>             |</p>
<table>
<thead>
<tr>
<th>Partner/Organization</th>
<th>Description</th>
<th>URL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dykema Gosset</td>
<td>Dykema Gossett, one of the country's most respected and diversified firms, practices in a wide range of areas and legal disciplines. Range from Fortune 100 multinational corporations to small entrepreneurial enterprises and individuals.</td>
<td><a href="http://www.dykema.com">www.dykema.com</a></td>
</tr>
<tr>
<td>Miller, Canfield, Paddock and Stone</td>
<td>Today Miller Canfield is the largest law firm in Michigan and one of the nation's leading firms in its specialty areas. We have grown to a legal staff of over 350 attorneys and legal assistants.</td>
<td><a href="http://www.millercanfield.com">www.millercanfield.com</a></td>
</tr>
<tr>
<td>PricewaterhouseCoopers</td>
<td>PricewaterhouseCoopers' service offerings have been organized into Five Lines of Services (Audit, Assurance &amp; Business Advisory, Business Process Outsourcing, Corporate Finance &amp; Recovery, Global Tax, PwC Consulting), each staffed with highly qualified, experienced professionals and leaders in our profession. These resources, combined with our global leadership structure, allow us to provide the support you need, where you need it and when you need it, at home and abroad.</td>
<td><a href="http://www.pricewaterhouse.com">www.pricewaterhouse.com</a></td>
</tr>
<tr>
<td>Arbor Partners, LLC</td>
<td>Provides long term capital, experienced support and an extensive network of strategic contacts to entrepreneurs who share our commitment to build tomorrow's great technology companies.</td>
<td><a href="http://www.arborpartners.com">www.arborpartners.com</a></td>
</tr>
<tr>
<td>Arboretum Ventures</td>
<td>A private equity fund targeting investments in early stage life science companies. Areas of focus: Medical Devices, Pharmaceuticals, Diagnostics, Bioinformatics, Biotechnology, and Agriculture.</td>
<td><a href="http://www.arboretumvc.com">www.arboretumvc.com</a></td>
</tr>
<tr>
<td>Ardesta</td>
<td>Ardesta is like a traditional venture capitalist - investing in microsystems startups and early stage companies. Ardesta is like an incubator - providing business and technical resources to support these companies. Ardesta develops industry-building resources such as trade publications, web sites and trade shows. We're investing in an entire industry, not just one company.</td>
<td><a href="http://www.ardesta.com">www.ardesta.com</a></td>
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<tr>
<td>Partner/Organization</td>
<td>Description</td>
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<tr>
<td>EDF Ventures, Inc.</td>
<td>EDF Ventures, a venture capital firm with offices in Ann Arbor, MI, invests in technology driven companies at various stages of their development. EDF specializes in information systems, technology, and healthcare investments.</td>
<td><a href="http://www.edfvc.com">www.edfvc.com</a></td>
</tr>
<tr>
<td>M Group</td>
<td>A venture capital firm founded in 1993 and based in Birmingham, Michigan. We invest primarily in software, internet infrastructure, technology and life sciences companies in which funds are required and targeted for new product launches, growth-oriented infrastructure or marketing development.</td>
<td><a href="http://www.mgroupinc.com">www.mgroupinc.com</a></td>
</tr>
<tr>
<td>North Coast Technology</td>
<td>North Coast Technology Investors, LP, is a $100 million, early stage venture capital fund that invests in technology-driven companies throughout the Midwest with outstanding growth prospects. The goal of the fund is to back entrepreneurs who seek to build major enterprises in Indiana, Michigan, and Ohio.</td>
<td><a href="http://www.northcoastvc.com">www.northcoastvc.com</a></td>
</tr>
<tr>
<td>Investors, LP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waypoint Ventures</td>
<td>Waypoint Ventures provides sound guidance and support to entrepreneurs and technology startups, helping transform their ideas into the next generation of new economy companies. We provide value added professional investment in what has traditionally been the &quot;angel&quot; round of financing and foster growth in our portfolio companies by taking an active management role. We work with entrepreneurs to develop their business plan, establish a path for upstream financing, and help them obtain the next round of investment.</td>
<td><a href="http://www.wpvc.com">www.wpvc.com</a></td>
</tr>
<tr>
<td>Partner Organization</td>
<td>Description</td>
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<tr>
<td>Bluegull Networks</td>
<td>Our mission is to coach, instruct, guide, recruit and support highly energized management teams who have ambitions to change the world. Successful companies are the result of world-class executive management teams. It is crucial to develop a corporate culture that combines the opportunity for self-satisfaction with corporate development while preserving a standard of fun and integrity. It is our further conviction that developing and implementing effective strategic relationships is essential for rapid growth. Building strong brand recognition is necessary to capture value for your shareholders.</td>
<td><a href="http://www.bluegull.net">www.bluegull.net</a></td>
</tr>
<tr>
<td>Hal Davis</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CompanyCrafters LLC</td>
<td>A venture catalyst firm based in Ann Arbor, Michigan that provides strategic counsel to startups, venture capitalists and university and corporate tech transfer groups.</td>
<td><a href="http://www.companycrafters.com">www.companycrafters.com</a></td>
</tr>
<tr>
<td>Jim Price</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zorea Consulting, LLC</td>
<td>Created to help companies enhance their success and growth. Working one-on-one with chief executive officers and other senior managers, Dr. Carlos Zorea helps them improve the quality and speed of critical decision-making that is essential in today's business environment.</td>
<td><a href="http://www.zorea.com">www.zorea.com</a></td>
</tr>
<tr>
<td>Dr. Carlos Zorea</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Martin Corporation</td>
<td>A full service commercial real estate firm specializing in the construction, management and leasing of retail (shopping centers), office, industrial, research, laboratory, warehouse facilities and properties located in Ann Arbor and Southeastern Michigan.</td>
<td><a href="http://www.firstmartin.com">www.firstmartin.com</a></td>
</tr>
<tr>
<td>Internet2</td>
<td>Internet2 is a consortium being led by over 190 universities working in partnership with industry and government to develop and deploy advanced network applications and technologies, accelerating the creation of tomorrow's Internet.</td>
<td><a href="http://www.internet2.org">www.internet2.org</a></td>
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June 28, 2002
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<thead>
<tr>
<th>Partner Organization</th>
<th>Description</th>
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<tbody>
<tr>
<td>Merit Computer Networks</td>
<td>Merit develops and promotes advanced Internet services for research and education. Merit's regional network in Michigan connects universities, community colleges, K-12 schools, libraries, state agencies, and cultural organizations. Through these organizations, Merit serves more than one million people in Michigan every day.</td>
<td><a href="http://www.merit.edu">www.merit.edu</a></td>
</tr>
<tr>
<td>Arbor Networks</td>
<td>Arbor's distributed, scalable, non-intrusive network availability solutions enable the operators of large, complex networks to detect network anomalies, such as distributed denial of service attacks, worm propagation, and next-generation network attacks, and rapidly resolve these threats to ensure the highest level of availability and performance.</td>
<td><a href="http://www.arbornetworks.com">www.arbornetworks.com</a></td>
</tr>
<tr>
<td>Interlink Networks</td>
<td>Interlink Networks is a leader in securing access to public and private networks. Our products manage user access to dial-in, broadband, mobile, and wireless LAN networks. Interlink Networks' RADIUS-based access control software provides the Authentication, Authorization, and Accounting infrastructure that enables secure and reliable network access for thousands of enterprise and service provider networks worldwide.</td>
<td><a href="http://www.interlinknetworks.com">www.interlinknetworks.com</a></td>
</tr>
<tr>
<td>UCAID</td>
<td>Internet2 is a consortium being led by over 190 universities working in partnership with industry and government to develop and deploy advanced network applications and technologies, accelerating the creation of tomorrow's Internet.</td>
<td><a href="http://www.ucaid.com">www.ucaid.com</a></td>
</tr>
<tr>
<td>NextHop</td>
<td>NextHop develops and markets network routing software solutions, partnering with customers and the industry to empower innovation in networking. NextHop's customers are building products for the network edge, server, firewall, LAN switch markets and beyond.</td>
<td><a href="http://www.nexthop.com">www.nexthop.com</a></td>
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</tr>
<tr>
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<tr>
<td>MEMS Consortia (In development)</td>
<td>Media company devoted entirely to the business issues of the fast-growing small tech industry, which includes MEMS, microsystems and nanotechnology. As these remarkable technologies move from laboratories to the marketplace, Small Times Media offers full news coverage through its bi-monthly magazine, daily news Web site and weekly e-mail newsletter.</td>
<td><a href="http://www.smalltimes.com">www.smalltimes.com</a></td>
</tr>
<tr>
<td>IP Mountain</td>
<td>Provides co-location, managed hosting, training and professional services. We build, maintains and supports the underlying network systems infrastructure, enabling established enterprises to launch e-business initiatives, as well as a stable and secure environment for launching new ventures.</td>
<td><a href="http://www.ipmountain.com">www.ipmountain.com</a></td>
</tr>
<tr>
<td>Eiler Communications</td>
<td>Eiler Communications is Michigan's leading high tech public relations and marketing firm that has the expertise and know-how to develop and implement creative, effective PR campaigns. With offices in Michigan and Silicon Valley, our award-winning staff consistently delivers results that matter to our clients.</td>
<td><a href="http://www.eilerpr.com">www.eilerpr.com</a></td>
</tr>
<tr>
<td>Enlighten</td>
<td>Enlighten has a 19 year history as an Internet professional services firm specializing in end-to-end development of Internet solutions in which the engaging user experience is a key component driving the success of the venture. Enlighten is a valuable partner for any company looking to leverage digital channels to enhance their business processes, and communication reach while cutting costs and improving ROI.</td>
<td><a href="http://www.enlighten.com">www.enlighten.com</a></td>
</tr>
<tr>
<td>Biotechnology Business Consultants, LLC</td>
<td>Biotechnology Business Consultants (BBC) strives to provide outstanding business consulting services to biomedical establishments. BBC partners with entrepreneurs, corporations, government and educational institutions in facilitating the development and commercialization of novel technologies, and in the establishment and growth of new ideas and companies.</td>
<td><a href="http://www.bioconsultants.com">www.bioconsultants.com</a></td>
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<tr>
<td>Partner/Organization</td>
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<tr>
<td>----------------------</td>
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</tr>
<tr>
<td>Hessenaur &amp; Associates, CPA, P.C. Gary Hessenaur, C.P.A.</td>
<td>People-oriented business, which provides the information, reports, consulting, and problem resolutions you need, when you need them, in the way you need them. By understanding you and your dreams we tailor our services to each individual's needs and goals. With more than 20 years of experience, H@ has gone beyond providing typical accounting and tax services based on historical information to being a part of your team.</td>
<td><a href="http://www.hessenaur.com">www.hessenaur.com</a></td>
</tr>
<tr>
<td>CrystalPoint Partners Wassim Mourata, Managing Director</td>
<td>CrystalPoint is a Venture Capital Firm focused on Research Commercialization. CrystalPoint partners with leading researchers, engineers and entrepreneurs from the academic and corporate research &amp; development environment to found, finance and build unique companies based on proprietary intellectual property.</td>
<td><a href="http://www.crystalpointpartners.com">www.crystalpointpartners.com</a></td>
</tr>
<tr>
<td>Beardslee Venture Advisors LLC Dan Beardslee, President</td>
<td>Management Consulting and CEO coaching with experience in IT and Medical Device industries.</td>
<td><a href="mailto:Daniel.Beardslee@alum.mit.edu">Daniel.Beardslee@alum.mit.edu</a></td>
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# Appendix 2: Budget

## Business Accelerator Pilot
### Year 1 & 2 Budget

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Total Pilot</th>
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<td>MEDG</td>
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<td>Salary Expenses</td>
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<td>Champion/Executive Director</td>
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<td>Co-Champion/Managing Director</td>
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<td>Education Services Manager</td>
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<td>Subcontracts/Consultants</td>
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<td>Biotechnology Business Consultants</td>
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<td>CompanyCrafters</td>
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<td>60,000</td>
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<tr>
<td>Karen Bantel</td>
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June 28, 2002
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<th></th>
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<td>Zorea Consulting</td>
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<td>Other Partners</td>
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<td>Total Subcontracts</td>
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<td><strong>Total Expenses</strong></td>
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* If the MATCH is in-kind, estimate the dollar value and include in the table and identify with a footnote.
** Insert Line-items if needed.
*** Indicate if the expenses will not be evenly incurred across the year with a footnote.
Appendix 3: The Venture Value Chain

The Venture Value Chain™:
A Conceptual Framework for Better Understanding
Technology Startups and Venture Finance

by James D. Price
and Yan T. Ness

EXECUTIVE SUMMARY

Few fields of business endeavor are more fascinating or more laden with mystique and legend
than those of entrepreneurship and venture finance. As a wide variety of startup executives,
service professionals, venture capitalists, aspiring entrepreneurs, academics and students
wrestle with issues pertaining to building and funding technology startups, confusion and
miscommunication are common. It seems clear that everyone involved could benefit from using a
common conceptual framework and a shared language of commonly-understood terminology.
Formally or informally, every successful tech venture goes through a series of identifiable steps
requiring significant and deliberate effort, and those steps are captured in the Venture Value
Chain™.¹ This new approach applies the paradigm of the value chain, well-accepted in other
industries, to the process of conceptualizing, funding and building new technology-based
companies.

The Venture Value Chain approach builds on a detailed understanding of the various stages and
sub-stages of the new-venture development process, the business objectives at each stage, and
the specific, value-added activities required at each juncture from the various business functions
(e.g., strategy and planning vs. finance and administration vs. marketing and sales). It is hoped
that this new framework will help bring clarity of thought, communication and action to the
process of starting successful ventures. By removing some of the startup mystique and offering a
rigorous conceptual framework for entrepreneurs, we hope to help in a small way to improve their
chances of success.

¹ The term “Venture Value Chain” is trademarked by CompanyCrafters LLC. The concepts pertaining to the
Venture Value Chain, including those described in this paper, are copyright-protected by CompanyCrafters
LLC.
OVERVIEW OF THE VENTURE VALUE CHAIN™

The backbone of the Venture Value Chain (sometimes we’ll just use the shorthand “VVC”) lies in the sequence of stages that virtually every technology-based startup eventually goes through (if it doesn’t die along the way): Shaping, Launch, Scaling, Managed Growth, and Liquidity. Exhibit 1 provides a graphic representation of the VVC’s 5 stages. In this section, we will define the major stages in the chain. In subsequent sections, we will "drill down" on each stage separately, discussing that stage’s discrete sub-stages and the associated objectives and specific value-added activities that typically occur at each juncture in the Venture Value Chain.

Following is a high-level description of the five stages of the VVC:

- **Shaping**
  At the Shaping stage, an individual or small group comes up with and progressively shapes the original business concept, often in stealth mode. A new company is not yet formed, but significant time -- and some money -- is invested speculatively to "flesh out" the concept. Typically, shaping begins with a domain expert identifying a market need and a potential technology-based solution to that need. He/she checks with trusted friends/advisors to try to validate the nature of the opportunity, and to fashion a business concept to address the perceived market.

- **Launch**
  During Launch, the new company is legally formed and initially funded. The founder or founders quit their "day jobs" and make significant commitments in terms of time, personal reputation and money (in the forms of both initial funding and foregone salary). At this stage, the new venture moves from stealth mode and is revealed to the broader public. Typically, seed financing -- often well under $1 million -- is raised from non-institutional financing.

Exhibit 1
The Venture Value Chain

<table>
<thead>
<tr>
<th>Stages</th>
<th>Sub-stages</th>
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<tbody>
<tr>
<td>Launch</td>
<td>Idea Generation</td>
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<td></td>
<td>Initial Exploration</td>
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<td>Reality Check</td>
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<td>Scaling</td>
<td>Formation</td>
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<td>Seed Financing</td>
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<td>Managed</td>
<td>Concept Proof</td>
</tr>
<tr>
<td>Growth</td>
<td>Market Proof</td>
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<tr>
<td>Liquidity</td>
<td>Institutional</td>
</tr>
<tr>
<td></td>
<td>Financing</td>
</tr>
<tr>
<td></td>
<td>Hyper-growth</td>
</tr>
</tbody>
</table>
sources (friends, family and "angel" investors) to fund a skeletal corporate infrastructure, and to prove out the product concept and the market appeal.

- **Scaling**
Once the concept and market are demonstrated in the previous stage, the new venture is better qualified to raise larger amounts of equity financing -- often spread over multiple "rounds" -- from institutional sources such as private venture capital firms or corporate strategic investors. This funding is applied toward rapidly scaling the enterprise by building out the staff and infrastructure, advancing product development, building the company's brand, and pushing rapid sales growth. Scaling consumes large amounts of capital with the goal building a large, valuable, self-sustaining company.

- **Managed Growth**
After consuming significant investment capital to rapidly scale during the previous stage, the venture should reach a stage of consistently cash-positive, self-sustaining operations. Higher market valuations, and better liquidity opportunities, will accrue to those companies that are able to manage for predictable growth in revenue and profitability.

- **Liquidity**
The company's outside investor/shareholders have invested based on the expectation of Liquidity for their shares within a reasonable timeframe (depending on the investor and market climate, somewhere between 2 and 7 years). This liquidity can be achieved through either an initial public offering (IPO) of the company's stock, or a merger or sale of the company for cash and/or liquid stock.

### STAGE #1: SHAPING

The various sub-stages of Shaping usually occur prior to actually forming the new company. This is when the aspiring entrepreneur (or team of two or more working collaboratively) comes up with the original idea for a new venture and, figuratively speaking, progressively "shapes," or sculpts and refines, the concept.

**Sub-stage 1.1 – Idea Generation**

Here you're looking to identify an apparent market need (the bigger the better) and a potentially unique solution to meet that need. The primary objective (you can think of it as the desired outcome) in Idea Generation is simply a written statement that articulates the market, the need and the potential solution.

The following are the key value-added activities, listed according to business function, which should occur during the Idea Generation sub-stage:

- **Strategy & Planning** – Formulate or identify technology-based business concept.

**Sub-stage 1.2 – Initial Exploration**

Your objectives at this point are to more clearly and tightly define your target market and customers, develop a preliminary sense of the technological feasibility of your proposed solution,
and perform some preliminary research (probably online) on competitive offerings available on the market.

The following are the key value-added activities, listed according to business function, which should occur during the Initial Exploration sub-stage:

- **Strategy & Planning** – Informal, personal time investment to in order to "flesh out" your concept and look for holes; personal market/competitive research; personal technology due diligence.

**Sub-stage 1.3 – Reality Check**

Once you've conducted your initial exploration, it's time to run your idea by a handful of people whose judgment you trust. At this point you're seeking assurance from trusted advisors regarding the feasibility of the technology or product, the size of the addressable market, the nature of competition, and the overall fundability of your new-business concept.

The following are the key value-added activities, listed according to business function, which should occur during the Reality Check sub-stage:

- **Strategy & Planning** – Seek "sounding board" opinions/reaction from trusted advisors/mentors; 1st-order confirmation of technology concept; 1st-order confirmation of market/competition; 1st-order assessment as to whether concept is fundable

**Sub-stage 1.4 – Planning**

Assuming you've received satisfactory sounding board opinions from your trusted advisors in the previous sub-stage, you now move on to developing a formal business plan and investor presentation.

The following are the key value-added activities, listed according to business function, which should occur during the Planning sub-stage:

- **Strategy & Planning** –
  - Map technology against market need; define business model
  - Conduct rigorous market research and competitive analysis
  - Write "version 1.0" of Executive Summary, Business Plan, Company Presentation

- **Finance & Administration** – Develop comprehensive financial model (spreadsheet projections) of the business, going out 5 years (summarized in the Business Plan)

**Sub-stage 1.5 – Validation**

This sub-stage entails seeking substantive validation of your company and product concept from potential customers, funding sources and strategic partners.

The following are the key value-added activities, listed according to business function, which should occur during the Validation sub-stage:
• **Strategy & Planning** –
  o Garner indications of serious interest from potential strategic partners
  o Update Business Plan, Executive Summary and Company Presentation with new information from activities below

• **Finance & Administration** – Seek verbal (ideally written) expressions of interest from a critical mass of seed funding sources

• **Human Resources** – Test interest from prospective executive team and advisory board members

• **Marketing & Sales** – Negotiate contingent orders, or other forms of written assurance, from lead customers

**STAGE #2: LAUNCH**

During *Launch*, the new company is legally formed and initially funded. The founder or founders quit their "day jobs" and make significant commitments in terms of time, personal reputation and money (in the forms of both initial funding and foregone salary). At this stage, the new venture moves from stealth mode and is revealed to the broader public. Typically, seed financing — often well under $1 million — is raised from non-institutional financing sources (friends, family and "angel" investors) to fund a skeletal corporate infrastructure, and to prove out the product concept and the market potential.

**Sub-stage 2.1 – Formation**

This is the point at which you actually create the new company.

The following are the key value-added activities, listed according to business function, which should occur during the *Formation* sub-stage:

• **Corporate & Legal** – Establish corporate/legal foundation
  o State corporate organization and d.b.a. filings
  o Federal Employee Identification Number (taxpayer I.D. #)
  o Naming of corporate officers and board of directors
  o Drafting of corporate bylaws, founding resolutions
  o Establishment of minute book
  o Reserve web domain name (url)
  o Apply for registered trademark or service mark protection for company name and logo, product names, taglines, etc.

• **Finance & Administration** – Establish financial/accounting foundation
  o Set up accounting system
  o Open bank account
  o Establish initial office space and acquire computers, furniture and office equipment
  o Open account/credit card with office supply store

• **Human Resources** – Establish founding team, including early-stage titles, roles and responsibilities

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*Executive Brief: “The Venture Value Chain”*  
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page 55  
www.companycrafters.com
• **Marketing & Sales** — Develop initial branding and corporate identity  
  o Company name and tagline  
  o Mission and vision  
  o Preliminary logo and graphical standards  
  o Product naming conventions  
  o Corporate identity website ("brochureware")  
  o Business cards and papers  
  o Preliminary pricing  
  o Etc.

**Sub-stage 2.2 – Seed Financing**

Your goal at this juncture is to successfully raise seed financing that is more than sufficient to fund the startup through proving out the concept and the market (Sub-stages 2.3 and 2.4).

The following are the key value-added activities, listed according to business function, which should occur during the *Seed Financing* sub-stage:

• **Strategy & Planning** — Update and "freeze" the Executive Summary, Business Plan, and Corporate Presentation for the purposes of raising seed capital

• **Corporate & Legal** —  
  o Design the security (common stock vs. preferred stock, etc.) for raising the seed financing  
  o Develop the necessary legal documents, such as private placement memorandum (PPM), subscription agreements, stock certificates, etc.

• **Finance & Administration** —  
  o Set up capitalization ("cap") table, showing planned dilution from seed round and *pro forma* dilution from anticipated future financing rounds  
  o Refine/update comprehensive financial model of the business  
  o Identify and contact potential funding sources (friends and family, angel investors, corporate strategic investors, venture capital firms)  
  o Explore alternative funding sources (e.g., credit cards, lines of credit, government grants, customer-funded development, etc.)  
  o Negotiate terms and close financing

**Sub-stage 2.3 – Concept Proof**

With seed financing in place, the next major challenge is to prove out the product/service concept. Your primary goal at this sub-stage is a demonstrable prototype that shows compellingly how your product solves the target customers' problem effectively.

The following are the key value-added activities, listed according to business function, which should occur during the *Concept Proof* sub-stage:

• **Strategy & Planning** — Establish and manage to explicit 30/60/90 day goals and objectives
• Corporate & Legal –
  o Negotiate and sign agreements for sourcing/licensing of all necessary third-party technology, components, content, etc.
  o Apply for patent and legal protection for key intellectual property
  o Apply

• Finance & Administration –
  o Manage cash consumption tightly
  o Establish basic business processes

• Human Resources –
  o Recruit, hire, orient and train skeletal startup team
  o Where possible, control structural burn rate at this stage by fulfilling roles and function through outsourcing and temporary staff

• Product & Technology –
  o Develop product specification, preferably in collaboration with lead customers
  o Build working product prototype
  o Alpha test product to verify basic operations

Sub-stage 2.4 – Market Proof

Armed with a demonstrable product, you are equipped to prove out the market – that is, to garner customer endorsements and actual purchase orders for your product. Your primary goal at this sub-stage is to land a critical mass of purchase orders (revenue from paying customers) sufficient to prove out the business model and target pricing, as well as to provide strong evidence of market acceptance and potential market size.

The following are the key value-added activities, listed according to business function, which should be accomplished during the Market Proof sub-stage:

• Corporate & Legal – Negotiate agreements with key strategic partners and channel partners

• Finance – Manage cash consumption tightly

• Human Resources – Identify candidates for sales leadership, line sales, customer support and product development positions for hiring during Scaling stage

• Marketing & Sales –
  o Identify “front bowling pin” customers and negotiate Beta testing and purchase agreements (possibly preliminary or contingent purchase orders)
  o Acquire critical mass of influential reference accounts (by industry or geography, whichever is more valuable to accelerate market penetration)
  o Through product sales and commitments, establish proof of (a) market need, (b) business model, (c) pricing efficacy, and (d) scalability

• Product & Technology –
  o Beta test with lead customers
  o Release version 1.0
STAGE #3: SCALING

Once the concept and market are demonstrated in the Launch stage, the new venture is better qualified to raise larger amounts of equity financing – often spread over multiple "rounds" – from institutional sources such as private venture capital firms or corporate strategic investors. This funding is applied toward rapidly scaling the enterprise by building out the staff and infrastructure, advancing product development, building the company’s brand, and pushing rapid sales growth. The Scaling stage consumes large amounts of capital with the goal of building a large, valuable and self-sustaining company.

Sub-stage 3.1 – Institutional Financing

This step entails raising additional financing sufficient to fund the company’s targeted growth.

The following are the key value-added activities, listed according to business function, which should occur during the Institutional Financing sub-stage:

- **Strategy & Planning** – Update the Executive Summary, Business Plan and Company Presentation to reflect milestones accomplished to-date, updates to strategy and partnerships, new executive team members, etc.

- **Corporate & Legal** –
  - Negotiate with sources of growth capital to define terms – e.g., preferences, participation rights, dilution protection, etc.
  - Develop necessary legal documents – e.g., purchase and sale agreements, stock certificates, etc.

- **Finance & Administration** –
  - Update capitalization (cap) table
  - Update financial projects (to-date actuals plus pro forma’s)
  - Identify, research and contact high-potential capital sources (corporate strategic investors, venture capital firms, possibly angels)
  - Continue exploring alternative financing sources (corporate credit cards, lines of credit, government grants, customer development contracts, etc.)

Sub-stage 3.2 – Hyper Growth

With institutional financing in place, the primary thrust of the young organization shifts to doing what it takes to achieve its rapid growth targets, while cementing a strong management team and formalizing the more mature business processes and systems necessary to support rapid growth.

The following are the key value-added activities, listed according to business function, which should occur during the Hyper Growth sub-stage:

- **Strategy & Planning** –
  - Establish an annual operating plan, with monthly and quarterly budgets and revenue targets, and clear operating goals and objectives
  - Seek to establish strong strategic partnerships that complement your company’s strengths (in products, services, channels, etc.)
• Corporate & Legal –
  o Upgrade/expand the board of directors by adding outsiders, ideally including
    industry expert/luminary and investor reps
  o Acquire necessary insurance/risk management coverage

• Finance & Administration – Manage business rigorously to monthly and quarterly
  expense and revenue budgets

• Human Resources –
  o Institute competitive, scalable pay, benefits and human resource systems
  o Recruit to fill out management and employee team
  o Establish more formalized and scalable management team and organizational
    structure and procedures
  o Establish and consistently measure clear performance metrics for management
    and employees

• Marketing & Sales –
  o Institute integrated marketing program designed to (a) build image and
    awareness (brand), and (b) generate quality sales leads
  o Establish and adhere to consistent sales process and rigorous forecasting
    system
  o Expand into new geographic territories

• Product & Technology –
  o Institute more formalized, consistent product management disciplines
  o Capture “voice of the customer” in product enhancements and additional
    products
  o Ensure development and delivery of a “whole product” (e.g., technology,
    applications, documentation, pre-sales support, implementation services,
    training, post-sales support, user community, etc.)

STAGE #4: MANAGED GROWTH

After consuming significant investment capital to rapidly expand during the previous Scaling
stage, the venture should reach a stage of consistently cash-positive, self-sustaining operations.
Higher market valuations, and better liquidity opportunities, will accrue to those companies that
are able to manage for predictable growth in revenue and profitability.

The following are the key value-added activities, listed according to business function, which
should occur during the Managed Growth stage (we have not attempted to divide Managed
Growth into sub-stages):

• Strategy & Planning –
  o Continue to rigorously adhere to process of annual operating plans, with monthly
    and quarterly budgets and revenue targets, and clear operating goals and
    objectives

• Corporate & Legal –
  o Hold regular meetings of board of directors and advisory board
• Finance & Administration – Drive operations toward (a) sustainable, cash-positive operations; (b) consistent, predictable growth; and (c) a strong balance sheet

• Human Resources –
  o Control growth in headcount to well under growth in revenue (i.e., improve productivity)
  o Focus on “the 3 R’s” for special contributors: recognize, reward and retain
  o Weed out weak contributors

• Marketing & Sales –
  o Drive consistent, integrated marketing program
  o Look to reduce marketing expenses as percentage of revenue over time (improve efficiency)
  o Continue to adhere to consistent sales process and rigorous forecasting system
  o Concentrate increasingly on repeat sales within the existing customer base
  o Upgrade territory sales management as necessary

• Product & Technology –
  o Seek logical brand extensions (build or buy) that complement the current product line and can be successfully sold to the existing customer base through existing sales channels

STAGE #5: LIQUIDITY

The company's outside investor/shareholders have purchased stock in your startup based on the expectation of achieving liquidity for their shares within a reasonable timeframe (depending on the investor and market climate, somewhere between 2 and 7 years). This liquidity is typically achieved through either an initial public offering (IPO) of the company's stock, or a merger or sale of the company for cash and/or publicly-traded stock.

The following are the key value-added activities, listed according to business function, which should occur during the Liquidity stage (we have not attempted to divide Liquidity into sub-stages):

• Strategy & Planning –
  o Position company for a liquidity event with well-honed management systems, processes, reporting, etc.
  o Position company for liquidity event through focus on relationships with key strategic partners

• Corporate & Legal –
  o Seek liquidity options (in order of traditional preference):
    ▪ Initial public offering (IPO)
    ▪ Sale to (merger with) public company for combination of cash and/or liquid stock
    ▪ Sale to private company for stock (in hopes that acquirer will go public)
    ▪ Pay out dividends to shareholders (“liquidity of last resort”)

• Finance & Administration – Manage for consistency, efficiency and profitability
HOW THE VENTURE VALUE CHAIN CAN HELP DRIVE SUCCESS

The primary players in the Venture Value Chain, of course, are the entrepreneurs and startup company executives themselves. Operating managers in tech startups are the primary players building value at each step of the way, so it is appropriate that the Venture Value Chain should present a management-centric view of the startup world. By using the VVC as a planning backbone, entrepreneurs and startup management teams can benefit from having clear milestones and objectives at each juncture. It is a commonly accepted maxim that focus is critically important for startup success, and the Venture Value Chain provides straightforward guideposts to help startup managers focus on the key value drivers for the business at each stage of development. In addition, by providing a functional breakout of value-added activities at each sub-stage, the VVC guides entrepreneurial teams in understanding what types of expertise — whether in the form of new hires or outside partners or contractors — they need at each juncture to perform exactly what tasks.

The venture development process involves a number of players outside of the firm who can also benefit from the VVC's conceptual framework. These include outside advisors and directors; service providers (attorneys, accountants, marketing and advertising agencies, management consultants and technology development outsourcers); investors (angels, venture capitalists and corporate strategic investors); and financial services firms (commercial banks, leasing companies, and investment banks). The VVC can prove useful to all these players by enabling them to unambiguously explain to entrepreneurs, and to each other, "Here is where I fit in the Venture Value Chain..."

In summary, by thoroughly understanding the Venture Value Chain and incorporating it as a guide to venture development, entrepreneurial teams and their supporting cast — board members, advisors, service providers, investors, etc. — will find themselves not only using a more common language than before, but, more importantly, focusing more consistently on the value drivers of the business at each stage of development.

About the Authors:
Jim Price (jim@companycrafters.com) and Yan Ness (yan@companycrafters.com) are both veteran technology entrepreneurs and angel investors, and together co-founded CompanyCrafters LLC (www.companycrafters.com), a venture catalyst firm based in Ann Arbor, Michigan that provides strategic counsel to startups, venture capitalists and university and corporate tech transfer groups.

Executive Brief: "The Venture Value Chain" www.companycrafters.com
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Appendix 4: Technology Map

Table 1: Advanced Manufacturing, Alternative Energy, Information Technology, and Bioinformatics

<table>
<thead>
<tr>
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<th>Information Technology</th>
<th>BioInformatics</th>
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Venture Capital
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Early Stage
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Table 2: Life Sciences and MEMS/Nanotechnology
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June 28, 2002
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Appendix 5: Support Summary

The following table represents the two-year budget commitment of the companies to provide services including due diligence, coaching, committee leadership, and investment.

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