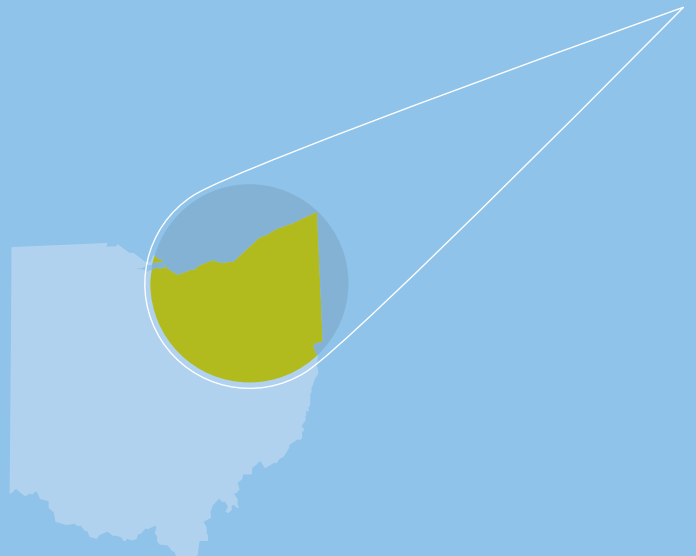


The 2007 Venture Capital Report

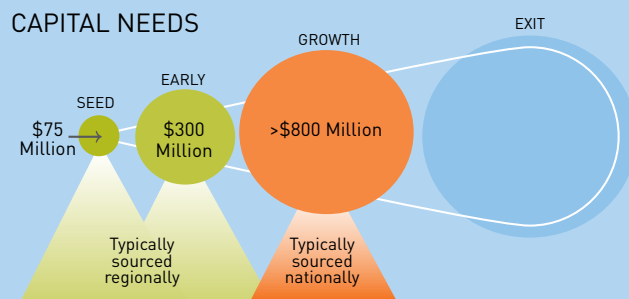


The Annual Survey of Venture
Investing Activity Across the
Cleveland Plus™ Region of Ohio



A region's economic and entrepreneurial success is driven by the supply of capital: human capital in the form of the education and skill levels of its citizens, intellectual capital in the form of research and innovation, and investment capital in all its forms. Studies repeatedly demonstrate that where venture capital is in plentiful supply, new company formation and innovation thrive. Where it's lacking, an area's economy is bound to under perform versus the high growth regions of the country.

The inaugural Venture Capital Report, published in 2006, reported that the supply of venture capital in Greater Cleveland proved both strong and growing. Aside from this positive trend, the numbers showed that just as entrepreneurial success begets further entrepreneurial success, venture funding begets additional venture funding. Indeed, the numbers pointed to a single staggering conclusion: Northeast Ohio's venture capital needs to support the growth of the region's emerging technology companies for the following five years would be \$1.2 billion.



Now, in the first year of this five-year period, the 2007 numbers are telling a remarkably positive story. **Investments in Northeast Ohio companies totaled \$318 million in 2007 — twice the dollars invested in 2006 and ahead of the year-one forecast.** While the capital need will never truly diminish, we are on our way to meeting the goals we've set for ourselves and the Cleveland Plus™ region: to ensure that innovative companies are forming and thriving, jobs and wealth are being created, and significant new investments from both venture firms in the region and across the nation are being made here.

In the following report, we showcase this progress and celebrate the successes realized in 2007. We hope you take a closer look at why this region is an increasingly attractive market for investors at all stages of the venture capital continuum.

Dorothy Baunach,
President and
Chief Executive Officer,
NorTech

James Ireland III
Managing Director,
Early Stage Partners, LP
Chair, NorTech Venture Capital
Advisory Task Force

Ray Leach
Chief Executive Officer,
JumpStart Inc.

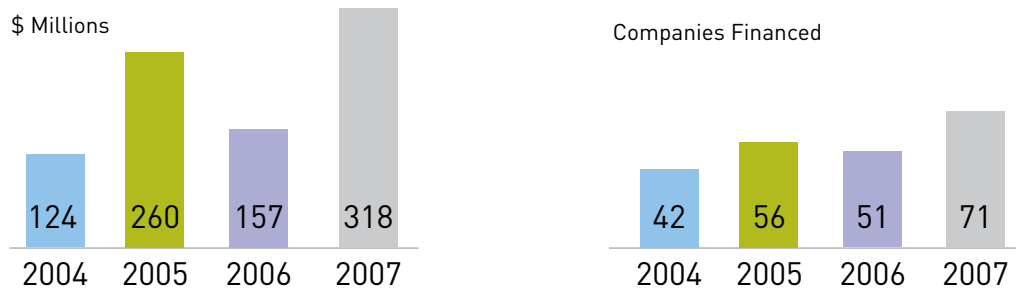
Baiju Shah
President,
BioEnterprise

NORTECH VENTURE CAPITAL ADVISORY TASK FORCE

- Dorothy Baunach, NorTech
- Tim Biro, Ohio Innovation Fund
- Greg Blonder, Morgenthaler Ventures
- Becca Braun, JumpStart Inc.
- Melford Carter, Ohio-Midwest Fund
- Chris Coburn, Cleveland Clinic Foundation
- Paul Cohn, Fort Washington Capital Partners
- Mark Coticchia, Case Western Reserve University
- Lorelei Davis, Frantz Medical Ventures
- James Ettamarna, Morgenthaler Partners
- Todd Federman, North Coast Angel Fund
- Steve Girouard, Oakwood Medical Investors
- Michael Goldberg, Bridge Investment Fund, LP
- William Grimberg, Consumer Innovation Partners
- Jack Harley, JWH Group, Inc.
- Steve Haynes, Glengary Ventures LLC
- Joe Hudson, OneEarth Capital
- James Ireland III, Early Stage Partners, LP
- Marcella Kanfer, GOJO
- Keith Kerman, Primus Capital Funds
- Don Knechtges, GLIDE
- Ray Leach, JumpStart Inc.
- Floyd D. Loop, M.D., Radius Ventures
- Chris Mather, NorTech/TechLift
- Kevin McGinty, Peppertree Partners
- Joe Michael, Peppertree Partners
- Bill Mulligan, Primus Capital Funds
- Don Murfin, DCC Growth Fund
- Jonathan Murray, Early Stage Partners, LP
- Clay Rankin, North Coast Angel Fund
- Barry Rosenbaum, Akron ARCHAngels
- Scott Roulston, Fairport Asset Management, LLC
- Gordon Schorr, Akron ARCHAngels
- Bill Seelbach, The Riverside Company
- Baiju Shah, BioEnterprise Corporation
- Chris Sklarin, Chrysalis Ventures
- Karen Spilizewski, RiverVest Ventures
- Mike Stubler, Draper Triangle Ventures
- Bill Trainor, Mutual Capital Partners
- Eric Von Hendrix, MWV Pinnacle Capital Fund, LP
- Brad Whitehead, Fund for Our Economic Future
- Bob Williams, Roulston Ventures
- Wayne Zeman, MAGNET

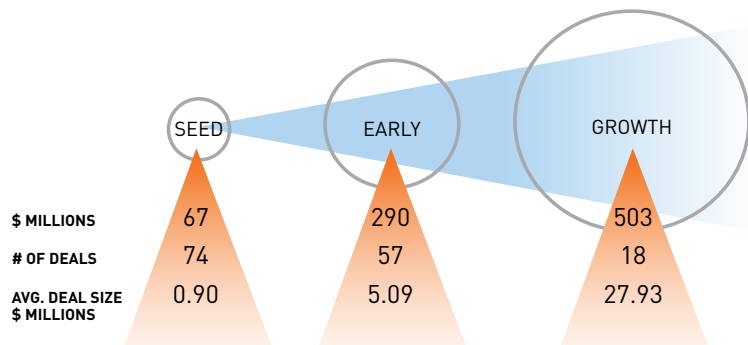
Northeast Ohio Presents a Great Venture Opportunity: Excellent Deal Flow and a Growing Capital Pipeline

Cleveland Area Venture Investments

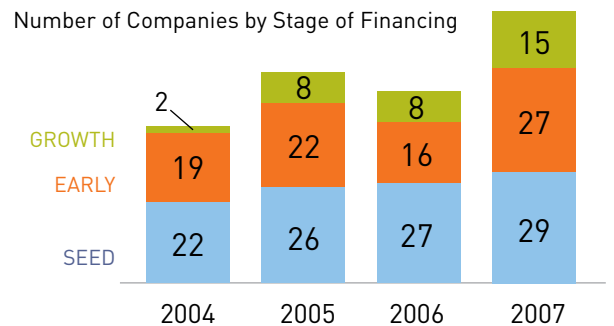


Source: Dow Jones VentureWire; Venture Source; Private Raise, LLC; BioEnterprise; JumpStart Inc.; Ohio Department of Development

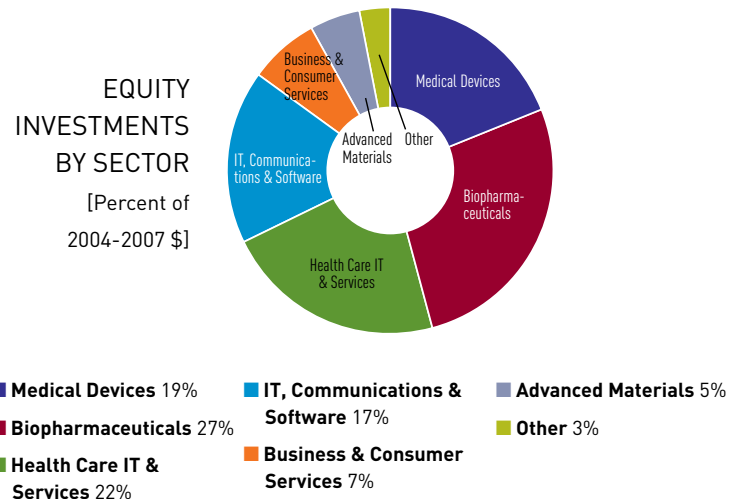
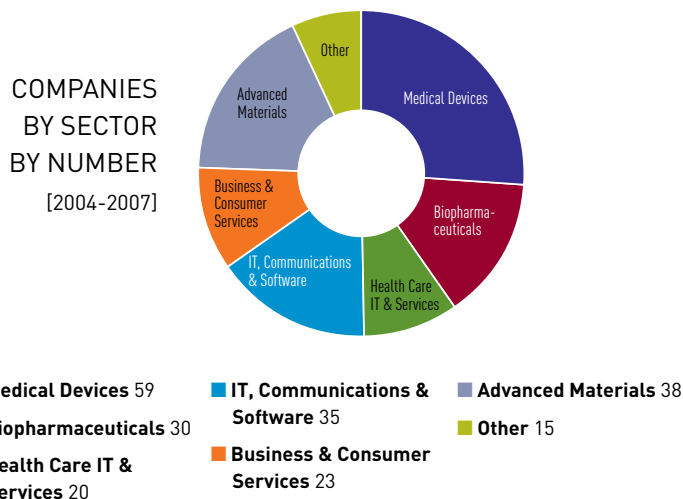
Investments by Stage (2004-2007)



Building Pipeline



Investments by Sector



Venture Capital Snapshot

- **71 Northeast Ohio companies raised a total of \$318 million in capital in 2007 – Double the amount raised in 2006.**
- Early indications show that regional and national venture firms are increasingly interested in the growth opportunities present within Northeast Ohio's thriving entrepreneurial environment and its untapped capital market.
- Bioscience investments, consisting of the Medical Device, Biopharmaceutical and Healthcare IT & Service sectors, accounted for 75 percent of the capital raised in 2007. Several key deals include: Athersys, \$70 million; Franklin and Seidelmann, \$25 million; and Ricerca, \$50 million (equity and debt).
- Deal flow outside Bioscience has more than doubled since 2004.
- Information Technology, comprised of Communications, Software, Healthcare IT & Services, is a strong sector, second only to Bioscience, accounting for 39 percent of total dollars invested since 2004.
- The number of deals and investments in Advanced Materials has more than tripled since 2004.
- **The pipeline of potential deals is building.** The number of early and growth-stage investments are increasing tremendously (both doubled), while seed-stage investments remain constant — a remarkable fact in the face of a steady national downturn in seed investing over the past decade.
- Companies like Member Health, Hyland Software, and many others, are **realizing significant exits**. Member Health was acquired by Universal American Financial Corp. for \$630 million. Hyland was acquired by Thoma Cressey Bravo for \$266 million.
- **Four new venture capital firms set up offices in Northeast Ohio** in 2007 and 30 venture firms made their first investment in Northeast Ohio companies in 2007, while existing regional firms raised new funds for continuing and expanded venture investment.

Featured Deals

SEED

EARLY

GROWTH

EXIT



AcelleRX

AcelleRX Therapeutics is a Cleveland Clinic spin-off developing biopharmaceutical therapies for ischemic disease. The company's lead product, Stromal Cell Derived Factor-1 (SDF-1), has been shown to increase cardiac function through activating natural repair processes that promote cell survival and revascularization after a heart attack. The company has raised \$1.5 million of seed capital and secured a \$1 million grant to advance this therapy toward clinical trial. Investors in the deal include Cleveland's North Coast Angel Fund, JumpStart Inc. and Xgen Ltd., as well as Blue Chip Venture Company of Cincinnati.



Thin Battery Technologies Inc.

This Parma, Ohio company, originally a spin-off of Eveready Battery, develops and manufactures flexible, disposable batteries that are Powering Innovation™ in emerging applications such as RFID tags, transdermal drug delivery patches, data loggers, sensors, and displays. Thin Battery closed a \$6.2 million Series A round with four investment groups: SunBridge Partners, Early Stage Partners, Key Capital Corp., and Orix Capital of Tokyo. The investment is being used to expand both the sales and marketing efforts in the company's current markets and the customization capabilities of the company's lab.



Ricerca

Ricerca, based in Concord, Ohio, provides preclinical contract drug discovery and development services to biotechnology and pharmaceutical companies around the world. Because of its strong customer relationships and its broad set of services, the company has experienced rapid growth. Ricerca's 300-person team provides the full range of chemistry and biology services required to move from intellectual property to IND submission with the capability to support product development to the point of commercial product launch. In 2007, the company announced a \$50 million growth financing (equity and debt) led by SV Life Sciences of San Francisco and Cowen Healthcare of New York. The company is using the funds to expand its operations and keep up with the growing demand.



Hyland Software Inc.

Hyland Software develops and sells OnBase, a software suite designed for business customers to manage content and automate business processes. The company has shown substantial growth over the past five years, with an average revenue increase of 26 percent each year, and completed its first acquisition last year with its purchase of Matrix Imaging out of Bloomfield, Michigan. Thoma Cressey Bravo, with offices in Chicago and San Francisco, purchased over half of this Westlake, Ohio-based company. Software is one of three key focus areas for the private-equity firm. Vice President of Thoma Cressey Bravo, Seth Boro stated, "We were looking for what we thought was the best management team and company to back. We met the team at Hyland and became very excited."

MIDWEST (OUTSIDE NEO)

Apex Ventures
 Beecken Petty
 BioOhio^{'07}
 Blue Chip Venture Company
 CID Equity
 Entrepreneurs Fund^{'07}
 Hopewell Ventures
 Medtronic^{'07}
 NCT Private Equity Fund^{'07}
 Orix Capital^{'07}
 OTAF
 Talisman Capital
 Thomas McNerney Partners
 Triathlon Medical Ventures

WEST COAST

Angiotech AAdvance
 Chevron Technology Ventures
 Compass Group
 DW Healthcare Partners^{'07}
 Hambrecht & Quist
 Morgenthaler Ventures
 Palo Alto Investors

Panorama Capital
 Parker Price Venture Capital
 Roberts Communications Network^{'07}
 Sierra Ventures
 SV Life Sciences^{'07}
 Vivo Ventures
 Western Technology

SOUTH

Accipiter Capital Management LLC^{'07}
 Cordova Ventures
 ExOxEmis
 MB Ventures
 Pappas Ventures^{'07}
 River Associates
 Symark
 Texas Pacific

BOSTON

Ampersand Ventures
 Boston Scientific Corp.^{'07}
 Capital Resource Partners^{'07}
 Eastward Capital
 Norwich Ventures
 Polaris Ventures
 RA Capital Management^{'07}

NEW YORK/EAST COAST

Behrman Capital
 Brown Brothers Harriman & Co.^{'07}
 Columbia Capital
 Cowen Healthcare^{'07}
 Domain Associates
 GMG Capital
 Greycroft Partners^{'07}
 Halyard Capital
 Investor Growth Capital
 Johnson & Johnson
 LSKW Investments
 Midsummer Capital^{'07}
 MPM BioEquities^{'07}
 mTerra Ventures LLC^{'07}
 New Enterprise Associates
 Oak Investment Partners^{'07}
 OrbiMed Advisors^{'07}
 Psilos Group^{'07}
 Radius Ventures^{'07}
 StarVest Partners
 Sunrise Equity
 Welsh Carson

^{'07} = NEW IN '07

Ohio Venture, Angel, Seed & Pre-Seed Funds

VENTURE CAPITAL FUNDS

Adena Ventures
 Athenian Venture Partners
 Blue Chip Venture Company
 Bridge Investment Fund
 Charter Life Sciences
 Chrysalis Ventures
 CID Capital
 Consumer Innovation Partners
 Crystal Ventures
 Development Capital
 Draper Triangle Ventures
 Early Stage Partners
 Frantz Medical Ventures
 Hercules Technology Growth Capital
 iNetworks^{'07}
 Isabella Capital
 Key Principal Partners

Max-Ventures
 MidPoint VC^{'07}
 Morgenthaler Ventures
 Mutual Capital Partners
 MWV Pinnacle Capital Fund
 Nationwide Mutual Capital
 NCIC Capital Fund
 NCT Ventures
 Oakwood Medical Investors
 Ohio Innovation Fund
 Peppertree Capital Management
 Primus Capital Funds
 Radius Ventures^{'07}
 Reservoir Venture Partners
 River Cities Capital Funds
 RiverVest Ventures^{'07}
 Riverside Capital Microcap Fund
 Roulston Ventures

SunBridg Partners
 Talisman Capital
 Triathlon Medical Venture Partners
 Walnut Capital Partners
 Xgen LTD
 Zapis Capital Group LLC

ANGEL NETWORKS AND FUNDS

Akron ARCHAngel Network
 C-Cap
 Clarion Capital
 CoreNetwork
 Custer Capital
 Findaway Ventures
 Growth Strategies Group
 North Coast Angel Fund
 Ohio TechAngel Fund
 Queen City Angels

RMS Capital
 Sycamore Partners

SEED & PRE-SEED VENTURE FUNDS

Blue Chip Validation Fund
 Case Technology Ventures
 Cincinnati Children's Tomorrow Fund
 Cincytechusa^{'07}
 Cleveland Clinic Innovations
 Glengary Ventures
 Lorain County Community College Innovation Fund^{'07}
 JumpStart Inc.
 Miami Valley Venture Fund
 Rocket Ventures^{'07}
 Southern Ohio Creates Companies
 TechColumbus

^{'07} = NEW IN '07

Investment Incentives In Northeast Ohio

Numerous venture funds have received capital from high-quality investment programs in Ohio. The first of these programs, the Ohio Capital Fund (supported by the State of Ohio) has invested \$69 million in twelve funds to date. The second, the Ohio-Midwest Fund (comprised of OPERS and Credit Suisse), has invested \$21 million in four venture funds. Combined, these two programs have over \$250 million to invest in venture and private equity funds that have an office in Ohio or are committed to investing in Ohio companies.

Companies That Have Raised Capital [2004-2007]

ADVANCED MATERIALS

6062 Holdings
AMTI
Aria Analytics
ComSense
Contained Energy
Delta Plant
Five Star Technologies
FLX Micro
MAR Systems
Mempro Ceramics Corporation
MIMFlow Technologies
Nanomimetics
OPTEM
Ovation Polymers
Polyflow
RSP Tooling
Stanton Advanced Ceramics
Technology Management
Thin Battery Technologies
Trivium Technologies

BIOPHARMACEUTICAL

AcelleRX Therapeutics Inc.
AnalizaDx
Arteriocyte
Athersys
ChanTest
Cleveland BioLabs
Copernicus Therapeutics

Ganeden Biotech
PrognostiX
Ricerca
Tolera
Transcutaneous Technologies
Vascular Biogenics

BUSINESS & CONSUMER SERVICES

Insurance.com
Day-Day
Employ Media
Hartville Group
Improvita Health Products
InnoDesk
NineSigma
Pfungsten Publishing
Predictive Services
PsyMax
QuickPayNet
Telisys Inc.
Tooling University
Visual Edge Technology

HEALTHCARE IT & SERVICE

American Safety & Health Institute
Aris Teleradiology Systems
CornerStone Medical
Franklin & Seidelmann
Subspecialty Radiology

Lifeline Screening
MDG Medical
MemberHealth
NCRx Optical
NextMed Systems
PetsDx
ProPractica
Roscoe Medical
Symbionix
Telerad Express
WholeHealth Management
Workflow.com

INFORMATION TECHNOLOGY & SOFTWARE

AVE Intervention
Axentis
Ayalogic
Banyan Technology
BlueBridge Networks
CutterCroix LLC
DimpleDough
Embedded Planet
Embrace Pet Insurance
Everstream
Flashline
Inspherion
Inspiron
IQS
Knotice

Ladies Who Launch
LogiSync
Northcoast PCS
PC On Call Inc.
PreEmptive Solutions
PsiBase
SageQuest
SamePage Solutions
Sypherlink
TOA Technologies
Turning Technologies
Unitask
Vox Mobile
YeboTV

MEDICAL DEVICE

AxioMed Spine
CardioInsight Technologies
Clear Image Technology
CleveX
Critisense
CSF Therapeutics
Early Sense
Fused Multimodality Imaging
Great Lakes Pharmaceuticals
Icon Interventional
Imadent
Imalux
IntElect

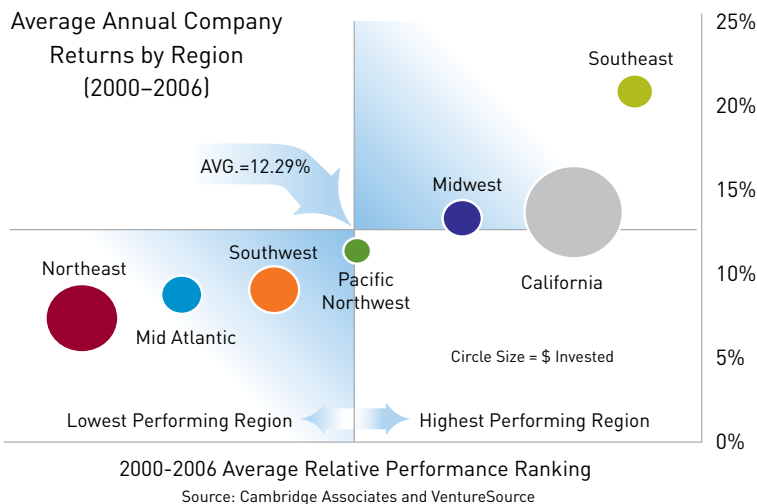
Interscopic Analysis
Interventional Imaging
Merlot OrthopediX
NDI Medical
NeoMed
Ogenix
OrthoHelix Surgical Designs
PeriTec BioSystems
SpineMatrix
Symphony Medical
Synapse Biomedical
Synpro Medical
Think-A-Move
Trek Diagnostics
Vasolux Microsystems

OTHER SECTORS

Amish Naturals
Fire-Dex Inc.
HF Food Technologies
Learning Horizons Inc.
Light Resonance Technologies LLC
Nine Iron Innovations
Ocean Energy Systems
One Source Technologies
reXorce Thermionics Inc.
Stratum Energy Systems
Teraphysics
Wireless Environment

Private Investments in Public Equities (PIPEs) were included in cases where it appeared that venture investors were involved.

Middle America Outperforms



Chrysalis Ventures, an established venture capital firm based in Louisville, Kentucky, conducted an in-depth analysis of venture industry data. Using both Cambridge Associates and VentureSource databases, Chrysalis analyzed data on every venture-backed company in the country for which there was returns information – many thousands of data points in all. The result: **returns from venture-backed companies based in the Midwest are above the national average – ranking third highest in the nation.**

Chrysalis opened its first satellite office in Cleveland in 2006, putting themselves in close proximity to the many deals emerging from the Cleveland Plus™ region.