



# MILESTONE MATTERS

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*"An optimist sees an opportunity in every calamity; a pessimist sees a calamity in every opportunity. I am an optimist. It does not seem too much use being anything else."* Winston Churchill

## Editor's Corner

Dear Friends, Investors and Associates,

Venture capital investing is a trade for optimists and today, being an optimist, poses a heavy burden. One feels like a salmon laboring upstream. But for the occasional Larry Kudlow column, there is pervasive gloom and doom. This is particularly true if one lives and works in Manhattan - the world's media capital where one is pummeled daily by the old gray lady's weltanschauung and the Wall Street Journal's news of the daily market slide.

In the words of one of my heroes, W. Churchill (see above quote), pessimism seems to lead down a dead end. So, rather than simply folding my tent and repairing to a rural hideaway, we poke about for gold among the dross which is essentially what venture capitalists do in all environments. Although it is important to be informed and to absorb the news from the New York Times and other conventional establishment sources, it is imperative to move beyond them.

The business environment is much better than the chattering classes report. Perspective is important. We are all familiar with China's vaunted double digit recent GDP growth rates. However, we forget they are advancing from a very low base. From 2002 through 2007, the growth of the U.S economy exceeded the total size of China's economy. Despite the continuing talk of recession, reality has not accommodated the alarming rhetoric. Actual U.S. GDP growth in Q1 2008 was 0.9% (up from Q4 2007 of -0.2%) and Q2 2008 GDP increased at a rate of 1.9%. We have not experienced two negative GDP quarters - the definition of recession.

The steel industry has been a poster child for U.S industrial malaise but this picture is changing. Steel inventories are at the lowest level since 1997. Aided by the weak dollar, steel exports are booming, up 18.4 % in Jan/Feb 2008 measured against the same period in 2007. In addition, Mid-west manufacturers and farmers are beginning to address rapidly expanding international demand.

The U.S. sub-prime mortgage problem and the attendant collapse of housing prices is a result of a lack of lending and borrowing discipline, the creation of new mortgage-backed derivative securities and aggressive financial leverage employed by hedge funds. That is to say, the problem is attributable more to the financial industry's machinations and less to fundamental economic malaise. One result is that between 500,000 and 1,000,000 families are in danger of losing their homes - a huge loss

for them but not a national crisis. In April, Bloomberg reported that 234,000 U.S. properties were in some stage of foreclosure. This is unfortunate, but the fact is that this group represents one of every 538 mortgages or less than 1/5 of 1% of home owners. This glass half empty perspective is pervasive. Emblematic of the financial services industry coverage, in January 2008, Bloomberg reported on JPMorgan Chase & Co.'s 34% drop in Q4 2007 profits vs. Q4 2006. Largely ignored were the bank's \$15.4 billion 2007 profits and revenues of \$71.4 billion - both records.

Thus far, the tri-state technology sector within which Milestone operates is doing well. Despite Wall Street woes which garner the headlines, the New York Metro Area is the national leader in the creation of high tech jobs (See Page Two Box - Lower Right) but with limited capital available for early stage entrepreneurs. This is an attractive equation for Milestone and other liquid venture investors.

Furthermore, because of slowing GDP growth and the pain within certain sectors, we are beginning to see a softening of entry-level pricing in order to entice the limited supply of early stage financing. To date, with a few exceptions, we have not seen our portfolio companies suffer as they are positioned within high growth niches and are providing high ROI solutions to their customers. Several are expanding their revenue at greater than 50% per annum. Milestone's commitment to the healthcare sector has been a key ingredient in this growth recipe.

However, Wall Street disruptions have had one clear adverse effect. As our larger companies mature and we seek to profitably dispose of them by unlocking the value created via trade sales or IPOs, the path is much more difficult. This past quarter was the first since VC records have been maintained (30 years) that no venture-backed company successfully sold its shares to the public. On the M&A side, acquirers are distracted by their own operating challenges and less inclined to make acquisitions. History suggests, this too shall pass and I anticipate a resumption of more robust IPO and M&A activity in Q4 2008 and beyond.

So from our small corner of the capital markets, we are working to avoid the doldrums by selecting carefully, companies in growth niches. We patiently await more propitious capital markets that will enable us to orchestrate some attractive exits.

With best wishes for the balance of the summer,

**Edwin A. Goodman**  
General Partner

## MVP PORTFOLIO NEWS

In July 2008, MVP III and MVP III NY invested a total of \$1.05 million in **SmartAnalyst, Inc.** Milestone led the \$2.5 million follow-on financing round alongside Edison Venture Fund and individual investors.

SmartAnalyst provides custom research and outsourced analytical services primarily to life sciences and consumer healthcare companies.

MVP II and MVP III invested a total of \$296,000 in a \$1.8 million follow-on financing round in **SkillSurvey** in June 2008. Milestone participated with investors, Inflection Point Ventures, Innovation Ventures and Lambda Fund and several new investors including Mid-Atlantic Angel Group and JM Cohen Investment Fund.

SkillSurvey provides an online software service to businesses that automates reference checking of potential new hires.

In May 2008 MVP II, MVP III and MVP III NY invested a total of \$100,000 as part of a follow on round of \$2.2 million in **Outside.in, Inc.** The Company was originally financed by Milestone in conjunction with Union Square Ventures and angel investors in February of 2007. The same investors participated in this round accompanied by NYCIF (New York City Investment Fund) as well as other new individual investors.

Outside.in is a consumer new media company focused on local news and information.

MVP II portfolio company, Guidester, Inc. recently announced its re-launch as **Searchandise Commerce**, shifting the company's focus from navigational tools to search-based online merchandising services. The company has added to its executive team with key appointments from ATG and Google and secured \$7.5 million in Series C funding in which Milestone participated.

### Ten Trends for the Next Decade

- Centers of economic activity are shifting profoundly - both globally and regionally
- Public sector activities will balloon – productivity gains will become essential
- Globally, the number of consumers will double, while tastes homogenize and spending patterns shift
- Technological connectivity is fundamentally transforming the way we live and interact
- Talent supply and demand will be more volatile
- Companies will increasingly have to answer not just to shareholders but to stakeholders
- Demand for natural resources will grow, as will strain on the environment
- New industry structures will emerge
- Management will go from art to science
- Ubiquitous access to information is changing the economics of knowledge

Source: McKinsey & Company

### What Has High-Skilled Immigration Given to the United States?

- **Andy Grove**  
Co-founder  
Intel Corporation  
86,300 employees
- **Vinod Khosla**  
Co-founder  
Sun Microsystems  
34,200 employees
- **Sergey Brin**  
Co-founder and President  
Google  
16,800 employees
- **Pierre Omidyar**  
Co-founder and Chairman  
eBay  
15,000 employees
- **Jerry Yang**  
Co-founder and CEO  
Yahoo  
14,300 employees

Source: AEA Cybercities 2008 Report

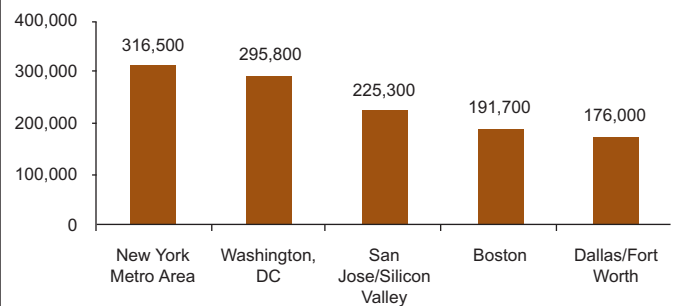
### Cumulative IRR Performance (%) by Stage (As of December 31, 2007)

Fund Type	Num of Funds	Cap Wtd Avg	Pooled Avg	Upper Quartile	Median	Lower Quartile
Seed Stage VC	66	5.5	9.4	13.3	4.4	(1.2)
<b>Early Stage VC</b>	<b>525</b>	<b>9.4</b>	<b>20.2</b>	<b>16.3</b>	<b>3.3</b>	<b>(5.2)</b>
Balanced VC	452	10.0	14.1	15.7	5.6	(0.3)
Later Stage VC	199	6.4	13.7	17.0	7.4	(0.6)
All Venture	1,242	8.9	15.8	16.0	4.9	(2.1)
All Buyouts	506	8.9	13.3	18.4	8.0	(0.1)
Mezzanine	72	6.9	8.7	12.6	7.5	1.5
All Priv Equity	1,915	9.2	14.1	16.7	6.3	(1.4)

\*Data include all of vintage years dating back to 1969

Source: Thomson Reuters/National Venture Capital Association

### NY Metro Area Ranked Highest by Employment of Tech Workers



Source: AEA Cybercities 2008 Report

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