



Portfolio Spotlight

psiloQuest, Inc.

Superior technology coupled with experienced leadership team equals optimism for 2002



Bob Heid, President

psiloQuest, Inc. provides polishing solutions to the integrated circuit industry with the focus on consistent performance. Based in Orlando, *psiloQuest, Inc.* develops, manufactures and sells materials used in the manufacture of computer chips.

Companies such as Intel and Agere use a process called Chemical Mechanical Planarization (CMP) to manufacture integrated circuits. CMP uses a slurry similar to liquid sandpaper with a sponge-like polishing pad to flatten the surfaces of computer chips. One of the critical consumable components in the CMP process is the polishing pad, and it is pad technology on which *psiloQuest, Inc.* has focused its attention. The pads will be manufactured from a new unique engineered thermoplastic designed specifically for use in CMP.

Founded by Randolph H. Burton, PhD. and Edward M. Yokley, PhD. in 1999, the company was originally known as Black Rock Technologies. It was started in part to research alternatives for the current state of the art in CMP polishing pad technology. President Bob Heid, who joined the

two scientists in late 1999 to productize the research, was the Vice President of Marketing and Business Development for Solution Technology, Inc., a semiconductor company from the Aurora Ventures, LLC portfolio, that was successfully sold to Rodel in 1997. After Bob joined the company, he contacted Aurora about participating in the company's first round of venture financing. Aurora led the \$2.5 million round with a \$1.5 million investment in July 2001. "Unlike our competition, our product is designed specifically for CMP; it is not a 'one size fits all' product," he says. "The process we use results in a consistently higher quality of polishing which in turn produces a consistently higher performing chip."

psiloQuest Inc. began the process of raising its next venture round by presenting at the Florida Venture Capital Conference at the end of January. As he looks ahead to the company's second round of financing, Heid anticipates the opportunity to develop its market. One of the strengths that will build market share is the expertise of the company's principals. "The whole company is built around semiconductor professionals. We have a combined fifty years' experience in the industry." *psiloQuest's* growth will come from capturing a larger market share at home and getting a foothold in SE Asia.

Asked to comment on the outlook for the integrated circuit market for 2002, Heid said, "This has been one of the worst downturns in the history of the semiconductor market. Manufacturers are at 30-50% utilization in an industry where 95% is optimal. The pundits say 3rd or 4th quarter will see a turnaround (more than 60% utilization), but there is no sign of a rebound yet. We *have* hit bottom, I think. Taiwan is recovering faster than the rest of the world. Although *psiloQuest, Inc.* is not in Taiwan yet, it is one of our goals. Taiwan is making chips for those manufacturers that cannot bring in labor themselves yet, due to the contraction in the economy. So this is a sort of leading indicator of a recovery in the industry.

"The fact that the market is down is actually a good sign for us; the customer will put a priority on process improvement when the market is down, looking for ways to make the very best quality product they can." When they do that, Heid says, they will look for a high-quality process and that's where *psiloQuest, Inc.* can make the difference.

Having participated in two previous start-up companies, Heid reflected on his experience at *psiloQuest, Inc.* "The opportunities for us here at *psiloQuest* are unique. We have a very strong technological approach to a market desperately in need of improvement; the product is very manufacturable and the support we're getting from those anxious to see us succeed is incredible. But if I had to identify one factor that is going to make this particular venture even more successful than the others, it would have to be the team we have assembled to take this thing to market. We've collected a group of individuals with amazing experience and expertise and created a team with enough focus, drive and energy to carry this one over the goal line."

Scott Albert, who sits on the company's Board of Directors for Aurora says, "We are very excited about *psiloQuest*. It is a great example of working with entrepreneurs that we know and have worked with before. Bob was a key part of the Solution Technology success. We know him and he knows us. In addition, we know the market that the company is going after, so we can help by asking the right questions and giving the proper help. *psiloQuest* is at the right place at the right time."

The Aurora Funds
Scott Albert ♦ Jeff Clark ♦ Rich Brown ♦ Doug Gooding
2525 Meridian Parkway, #220, Durham, NC 27713
Phone: (919) 484-0400

THE AURORA UPDATE

NEWS FROM THE AURORA FUNDS, INCORPORATED

INVESTING IN EMERGING TECHNOLOGY-BASED COMPANIES

Volume 3 Number 1 Winter 2002

2002 Outlook

2001 proved to be a challenging year for venture capital firms. In the first half of the year, the industry experienced a depressing economic environment: technology companies' valuations decreased precipitously, venture capital dried up in all areas, and venture capitalists spent the bulk of their time working on existing portfolio companies. These efforts resulted in many portfolio companies either being merged with more profitable companies, sold to other interests or closed down.

The go-go days of venture investing are gone. It's "back to basics", with VC firms needing two to six months of solid due diligence to evaluate the merits of new deals and get them done. There is still dry powder available in many funds ready to be deployed in new and exciting companies. Aurora Funds also expects a back-to-normal year. "When everybody worked on their portfolio, very few new deals were done," said Jeff Clark, general partner at Aurora. "Now everybody's got their problem children squared away." By investing the time and effort necessary to solve these problems, Aurora is now looking at a clean slate for 2002.

Raleigh *News & Observer* staff writer Christina Dyrness, in an article on January 20, 2002, wrote, "In addition to an increase in optimism from the local venture capitalists, macro trends are also encouraging. The National Venture Capital Association reported earlier this month that venture-backed initial public offerings of stock were up in the fourth quarter of 2001 for the first time all year. Fourteen companies raised \$1.45 billion by selling stock to the public. 'A healthy IPO market is essential for the overall good health of the venture-capital industry,' said Mark G. Heesen, NVCA's president. 'It also bodes well for entrepreneurial companies looking for venture financing.'"

We expect to see the strongest dealflow in the coming months in the life sciences, especially in platform biotechnology companies. The information technology sector has shifted toward new investments that encompass core technologies that can be protected by patents. Valuations in the IT sector have plummeted, which makes low entry valuations in new deals extremely important, as exit values are much lower than we have seen in the past few years.

Overall, Aurora believes that in the coming year, we will close on five to seven new investments. Additionally, we see encouraging signs that the markets will improve for exits via either mergers and acquisitions or IPOs. We are hopeful that this change will create opportunities for us to have two to five positive exits from our funds this year.



Jeff Clark



Scott Albert

on the inside...

- Aurora Companies in the News 2
- Aurora Team in the Community 2
- GadgetSpace Acquired by InPhonic 3
- Portfolio Spotlight - psiloQuest, Inc. 4
- ...and more!

We began efforts to raise our fourth fund, Aurora Ventures IV, LLC, in September 2001 and we are targeting a fund in the \$75 to \$100 million range. Most of our existing institutional investors have indicated they will invest at current or higher levels than in our other funds and we have begun to visit with other potential institutional investors. We anticipate a first close in the first quarter of this year and a final close toward the end of 2002. Feel free to give either Jeff or Scott a call with any questions concerning our fourth fund.



Aurora Companies in the News

Haht Commerce reported record revenues for the second successive quarter. The leading demand chain management company experienced 18% growth for the first half of its fiscal year over the same period last year. It also reported an increase in its customer base by 33% over the last year, including key new customers Chevron Phillips Chemical Company LP, Degussa Construction Chemicals Co., Arch Chemicals, and Sasol North America. According to The Yankee Group, a technology research and consulting company, the amount of money spent on Demand Chain Management software will double every year for the next 5 years, to an estimated \$1.2 billion by 2005.



Blackboard Inc. and **Questionmark**, a testing and assessment software provider, announced in December an agreement to make the companies' systems interoperable through Blackboard's Building Blocks Program. The agreement results in a new software "bridge" which will link Blackboard's Enterprise Learning System to the Questionmark™ Perception™ assessment platform. The bridge allows students to register for a course in Blackboard while seamlessly linking to the assessment software in Questionmark, permitting institutions to maintain student and instructor profiles within Blackboard while taking advantage of the assessment features of Perception. Blackboard is a software infrastructure company committed to bringing the educational experience online.



Xanthon Inc. has been awarded a Small Business Innovation Research (SBIR) grant by the United States Army for work which could impact bioterrorism detection. Carole Golden, PhD, VP, Research and Development, said, "...The successful development of a device as contemplated in this SBIR Contract would have broad applications beyond military requirements. Such devices could provide prompt detection of potential bioterrorist attacks, and have wide application for the detection of pathogens in medical diagnostics, point-of-care clinical settings, food production, environmental monitoring, agriculture, and other industrial settings."



Norak Biosciences, Inc. and Universal Imaging Corporation (UIC) announced in January a collaborative agreement to combine two new screening technologies. This will enable biotechnology and pharmaceutical companies involved in drug discovery to study G Protein-coupled receptors (GPCRs) in high-content mode. GPCRs are historically the single richest receptor target for drug discovery today and are targeted by nearly 60 percent of all currently marketed prescription drugs. "Highly accurate and flexible cell-based screening systems remain a key to biotech and pharmaceutical drug discovery efforts," commented Dr. Roger D. Blevins, President and CEO of Norak.



Aurora Investment Team In The Community

Scott Albert, general partner, served on an EntreForum panel, sponsored by the Center for Entrepreneurial Development, (CED), entitled, "Exploring New Business Opportunities" December 6, 2001. He was also on a panel for CED's "Money & Markets 2002" conference held on January 25, 2002.

Jeff Clark, general partner, also participated in the "Money & Markets 2002" conference as the moderator for a panel discussion entitled "The Pleasures and Pitfalls of the Strategic Partner-ship". Jeff continues to play an active role on the development committee for CED's capital campaign titled "Innovation to Impact".

Rich Brown, principal, is on the advisory board of the RTP Wireless Initiative, a new group presented by CED and the Center for Entrepreneurship and Technology Venturing at Kenan-Flagler Business School. Made up of wireless / technology companies and leading universities, the RTPWI will address key wireless topics through its speaker series and provide valuable networking opportunities for anyone with an interest in the wireless industry. The kickoff meeting was held in November. Rich also served on the Venture Capital Entrepreneurial panel at Duke's Fuqua School of Business in November, and on the Angel Investor panel sponsored by CED in December. Rich continues as a member of the CED Capital Connection Advisory Team, which helps applicant companies identify CED programs that will suit their business needs, reviews their business development and funding progress, and provides ongoing mentoring and direction.

Doug Gooding, associate, has been named chair of the SEBio selection committee. SEBio brings together national, international and regional life science investors, entrepreneurs and company executives, and other key players involved in building innovative life science ventures. Doug also recently gave two lectures to students at Kenan-Flagler Business School on the venture capital process. **Doug Gooding, Rich Brown and Jeff Clark** are members of the business plan review and selection committee for CED's Venture 2002 conference, to be held April 30 – May 1.

Portfolio Talk GadgetSpace Acquired by InPhonic



On December 3, 2001, InPhonic, Inc. completed the acquisition of GadgetSpace. InPhonic acquired all of the assets of Aurora's portfolio company GadgetSpace (which had recently acquired BrightPod) in an all stock transaction.

GadgetSpace's intelligent wireless data access gateway technology will allow InPhonic to provide rapid extension of online information, transactions and enterprise applications to data-capable mobile devices or interactive voice portals. Existing Internet applications can be instantly extended to support wireless interactions without modification to the current Internet or intranet site. InPhonic's Virtual Private Wireless Networks (VPWNs) enable customers to broadcast and narrowcast information to designated groups to enhance communication, generate new commerce opportunities, and give end-users access to mission-critical information.



GADGETSPACE

InPhonic, also a privately held venture-backed company, is a provider of sophisticated wireless solutions for major corporations, affinity groups and e-businesses. They develop end-to-end wireless voice and data solutions that support clients from device procurement and service selection through data/voice platform integration and solution hosting. InPhonic supplies equipment and proprietary software and services that enable its clients to deliver information, access corporate data and perform commercial transactions via a wide range of devices, including mobile phones, handheld electronic organizers and wireless e-mail devices. In the two years since its founding, InPhonic has acquired over 200 customers, including AOL, Quixtar, The Janus Funds, Sallie Mae and the National Education Association. To date, the company has raised more than \$40 million in capital and equity investments, from a variety of leading venture capital firms including: Sculley Brothers Investments, RAF NetVentures, CMS Financial Services, Mid Atlantic Venture Funds, Core Capital Partners, McAndrews & Forbes, Spring Capital, Argosy Investment Partners and Wynnefield Capital.

"The emerging wireless and mobile Internet market has matured to the point where the next phase will be one of consolidation, which will bring together emerging companies and give them the resources and economies of scale to grow into tomorrow's leading companies," remarked Rich Brown, Principal at the Aurora Funds and former Board member of GadgetSpace. The combination of GadgetSpace's technological expertise and product offering with InPhonic's seasoned management team and well funded sales capabilities is an ideal example of how M&A can further enhance InPhonic's leadership position in the mobile Internet market and bring significant value to GadgetSpace's shareholders.

Information Technology		Life Sciences	
Alerts, Inc. www.alerts.com	MicroMass Communications, Inc. www.micromass.com	Cogent Neuroscience, Inc. www.cogentscience.com	Nobex Corporation www.nobexcorp.com
Blackboard, Inc. www.blackboard.com	Mobile-Mind, Inc. www.mobile-mind.com	Emageon, Inc. www.emageon.com	Norak Biosciences, Inc. www.norakbio.com
Broadband Home, Inc. www.broadbandhome.com	Porivo Technologies, Inc. www.porivo.com	Insect Biotechnology, Inc. www.insectbio.com	Stemco Biomedical, Inc. web site under development
Engenia Software, Inc. www.engenia.com	psiloQuest, Inc. www.psiloquest.com	Merix Bioscience, Inc. www.merixbio.com	TriVirix International, Inc. www.trivirix.com
Foresight Corporation www.foresightcorp.com	Unitive Electronics, Inc. www.unitive.com	Natus Medical, Inc. www.natusmed.com	United Emergency Services, Inc. www.unitedemergency.com
Haht Commerce, Inc. www.haht.com	VetCentric.com www.vetcentric.com	Nexan, PLC www.nexan.com	Xanthon, Inc. www.xanthon.com
InPhonic (formerly GadgetSpace) www.inphonic.com			

The Aurora Update is a quarterly publication of The Aurora Funds, Inc., a Research Triangle Park, NC-based venture capital partnership that invests in early stage life science and information companies in the southeastern US. Jean Alderman edited this edition of The Aurora Update.