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August 23, 2005

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Private Equity Goes Public (Again)

Nearly one year after the business development company (BDC) phenomenon fizzled under the weight of its own pointlessness, private equity firms have found a new vehicle to ride into the public markets. They are specified purpose acquisition companies (SPACs), which otherwise are known as blank check acquisition companies. For those with long memories, these "companies" once were the darlings of both penny-stock traders and con artists, given their relative lack of regulation. Today, however, they've gone legit.

Every SPAC has a slightly different back-story, but their general structures are similar: Newly-formed companies without assets, whose stated purpose is to acquire an unidentified company in a loosely defined industry. They are typically managed by a small group of executives with operating expertise, whose ranks more and more frequently are including part-time assistance from board members who double as managing directors or general partners with private equity firms (and from VC firms, in particular).


Recent SPACs, for example, have included the participation of individuals from such firms as Paladin Capital Group, Pequot Capital, McCown De Leeuw, SV Life Sciences, Lightspeed Venture Partners, Praxis Capital Ventures and the GE Asia Capital Technology Fund. There even was a new SPAC filing yesterday that listed its CFO as Dave Brophy, the Michigan B-School professor who serves as director of the school's center for venture capital and entrepreneurship.

This is a [decent primer](#) on SPACs, which typically trade on the OTC Bulletin Board, although a few have begun hitting the AMEX.

So why are so many private equity firms taking a public flier on companies which, by definition, have no real assets, let alone a product or product in development? The best answer seems to be that many VC-supported SPACs are the next evolution of the venture partner movement, which already has spawned entrepreneurs-in-residence. Perhaps consider them management teams-in-residence.

SV Life Sciences, for example, is involved in an SPAC managed by the same team that founded and ran former SV Life Sciences portfolio company Laser Vision Centers Inc. Jim Garvey, CEO and managing general partner of SV Life Sciences, says his firm was approached by the team to participate, and will act as an advisor when the SPAC is considering certain deals, and also possibly provide select deal-flow. He calls it a very low-risk venture, given that SV life Sciences will only spend significant money if the SPAC both raises its IPO and then finds a deal (many SPACs are unable to do either). To date, the firm only had put in about \$3,000.

Such vehicles seem to make sense for VC firms on a one-off basis, but one really has to wonder



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how many of them will get off the ground. There has been a massive surge in such offerings so far in 2005, and it is impossible to ignore the 2004 business development company parallels. After Apollo priced a BDC early last year, almost all the big LBO players filed into the fray, including Blackstone Group, KKR and Thomas H. Lee Partners. Subsequently, they all pulled the offerings due to saturated market disinterest, although KKR successfully reconfigured its attempt as a real estate investment trust (REIT).

I'd assume the same file/withdraw/disappear scenario will play out with SPACs, because there can only be so many buyers interested in such amorphous securities. To put it in layman's metaphor, imagine coming home from Best Buy and telling your spouse that you spent \$1,000 on a "new electronics product." You can't explain what it is or what it does, but were assured by Jimmy at Best Buy (who you believe to be a high-tech god) that it will revolutionize your life, once it's shipped to you within the next year. How long until you're sleeping on the couch?

More on SPACs in the next issue of [Buyouts Magazine](#), including a discussion of why so many have been filed in 2005 ("It's just cyclical" is a popular explanation). If you've got any insights/input, please send it my way...

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Top Three

Alba Therapeutics Corp., a Baltimore-based drug company focused on zonulin pathway modulation, has raised \$30 million in Series A funding. SV Life Sciences and Alta Partners co-led the deal, and were joined by HealthCap, Red Abbey Venture Partners and the Maryland Venture Fund. Also participating were seed-stage backers Esperance BioVentures, Astellas Ventures, Maryland TEDCO and Townsend Capital. www.albatherapeutics.com

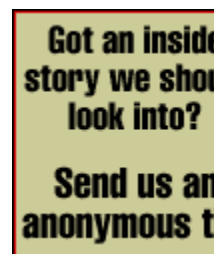
The Dover Corp. (NYSE: DOV) has agreed to buy **Knowles Electronics** from **Doughty Hanson & Co.** for \$750 million. The deal is expected to close next month. Knowles is an Itasca, Ill.-based maker of hearing aid transducers and MEMS microphones for cell phones. www.dovercorporation.com www.knowles.com

MidOcean Partners has agreed to acquire **Bezier Holdings Ltd.** from **Electra Partners** for Gbp77 million. Electra will maintain a minority position in UK-based Bezier, which provides point-of-purchase marketing materials to retailers and branded goods manufacturers. The Royal Bank of Scotland is providing leverage. www.bezier.co.uk www.midoceanpartners.com

VC Deals

Alloptic Inc., a Livermore, Calif.-based developer of gigabit Ethernet passive optical networks, has raised \$30 million in fifth-round funding co-led by **Ritchie Capital Management** and return backer **GMG Capital Management**. The company has raised over \$84 million in total VC funding since its 1999 inception. www.alloptic.com

SkyeTek Inc., a Boulder, Colo.-based developer of embedded RFID reader technology, has raised \$8 million in Series B funding. Palomar Ventures and Sequel Venture Partners were joined on the



deal by return backer Appian Ventures. www.skyetek.com

Extraprise Inc., a Boston-based systems integrator and business process outsourcer focused on customer management, has raised \$5.1 million. Participants include Brentwood Ventures, Candover Investments, Commonwealth Capital Ventures, Flagship Ventures, High Street Partners, LightSpeed Venture Partners, MeriTech Capital Partners, The Productivity Fund and unnamed individuals. The company has raised over \$60 million in total VC funding since its 1997 inception. www.extraprise.com

MIP Technologies AB, a Sweden-based developer of molecularly imprinted polymers for separations and drug discovery, has raised Sek30 million (approx. \$3.92 million) in second-round funding. Catella Healthcare Inv*stments led the deal, and was joined by company management. www.miptechnologies.se

Kenai Systems Inc., a Rocklin, Calif.-based provider of Web services vulnerability assessment and management solutions, has raised \$5 million in Series A funding from GMG Capital Partners. www.kenaisystems.com

Nsite Software Inc., a Pleasanton, Calif.-based provider of automated business process software, has raised \$4 million in new venture capital from return backers Worldview Technology Partners and Copan. The company now has raised approximately \$13 million in total VC funding. www.nsite.com

ChinaCars.com, a China-based online car retailing portal, has raised \$5 million in new VC funding in anticipation of an IPO filing on the Nasdaq, according to *The South China Morning Post*. www.chinacars.com

MainOne.com, a China-based IT company, has raised over \$10 million in VC funding from **SAIF Partners**, according to *SinoCast*. www.mainone.com

FG Microtec, a Germany-based maker of embedded software for managing communication flow in mobile phones, has raised 2.3 million euros in Series B funding. Triangle Venture Capital Group led the deal, and was joined by Swiss Co-Inv*stor AG and French 123Venture. www.fgmicrotec.com

Buyout Deals

CEA Acquisition Corp. has agreed to acquire **eTrials Worldwide Inc.**, a Morrisville, N.C.-based provider of integrated software for the life sciences industry. ETrials Worldwide had raised approximately \$7 million in VC funding from firms like Prodea, Newlight Associates and Nazen & Co. CEA Acquisition is a blank check acquisition company that went public on the OTC Bulletin Board last year, and is managed by numerous people with private equity backgrounds, including: Patrick Michaels of Communications Equity Associates and Donald Russell of CEA Capital Partners USA. www.etrials.com

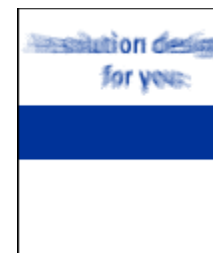
Resurgence Financial LLC, a purchaser and collector of Illinois defaulted credit card accounts, has completed a recapitalization. The deal includes the \$5 million sale of a 25% company stake to an unnamed private equity firm. Kaulkin Ginsberg Co. advised Resurgence on the transaction.

Triton Pacific Capital Partners has sponsored a recapitalization of **Strategy Inc.**, a Clearwater, Fla.-based construction and environmental claims consulting firm. No financial terms were disclosed. www.tritonpacific.com www.strategyclaims.com

3i Group has sold its minority stake in UK sandwich and coffee company **EAT** to **Penta Capital**, as part of a Gbp39 million refinancing. The deal includes Gbp18 million from **Barclays**. www.3i.com

3i Group has agreed to sell its 26% stake in Swedish biotech company **Arexis AB**, as part of an overall buyout by **Biovitrum**. No financial terms were disclosed. www.arexis.se www.3i.com

Advent International has acquired **Aircom International Ltd.**, a UK-based provider of wireless network planning, optimization and performance management products and services to mobile telecoms operators. No financial terms were disclosed. www.adventinternational.com www.aircominternational.com



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Advent International reportedly has agreed to acquire Czechoslovakia credit card company **Ceska Spolecnost Pro Platebni Karty AS** (CCS) from **JPMorgan Chase & Co.** and company management. No sale price was disclosed. www.adventinternational.com

PE-Backed IPOs

Asia Automotive Acquisition Corp., a Birmingham, Mich.-based blank check company focused on the automotive component industry, has filed to raise \$32 million via an IPO. The company plans to trade on the OTC BB, with Rodman & Renshaw serving as the offering's lead underwriter. Company executives include: chairman William Herren, co-founder of Asia Development Capital; CEO Rudy Wilson, co-founder of Asia Development Capital; and CFO David Brophy, a professor at the University of Michigan School of Business Administration, and director of its Center for Venture Capital and Private Equity Finance.

PE-Backed M&A

Concerto Software Inc., a Westford, Mass.-based provider of contact center solutions, has completed its acquisition of **Aspect Communications Corp.** (Nasdaq: ASPT) for approximately \$1 billion, or \$11.60 per outstanding share of Aspect common stock. The merged, privately-held company will be named Aspect Software, with controlling shareholders including **Golden Gate Capital, Oak Inv*stment Partners** and company management. www.concerto.com

Freescale Semiconductor Inc. (NYSE: FSL) has acquired the assets of **Seaway Networks Inc.**, an Ottawa, Canada-based fabless semiconductor supplier of content processing technology and solutions for the data networking industry. No financial terms were disclosed. Seaway had raised over \$23 million in VC funding from firms like JK&B Capital, Skypoint Capital and NovaCap. www.freescale.com www.seawaynetworks.com

Photonis Holdings SAS, a France-based photo-detection company controlled by **AXA Private Equity**, has acquired Burtle Industries Inc., a Lancaster, Pa.-based maker of specialized electron tubes and electro-optic products. No financial terms were disclosed. www.photonis.com

PIPE Deals

MTI Technology Corp. (Nasdaq: MTIC), a Tustin, Calif.-based provider of storage solutions and services, has entered into an agreement with **Advent International** to raise \$20 million through a private placement of Series B convertible preferred stock. Advent previously led a \$15 million Series A PIPE infusion for MTI in June 2004. www.adventinternational.com www.mti.com

NITAR Tech Corp. (OTC: NCHP) of Toronto has entered into a Cdn\$35 million standby equity distribution agreement with **Cornell Capital Partners**. www.nitartech.com

Firm & Fund News

SKM Growth Investors has changed its name to **Parallel Inv*stment Partners**. The firm – which focuses on recaps, growth capital and buyouts in the lower middle markets – spun out of **Saunders Karp & Megrue** earlier this year, when that firm agreed to merge with **Apax Partners**. www.parallelip.com

The Praedium Group LLC has closed its sixth real estate private equity fund with \$700 million in capital commitments. www.praediumgroup.com

Human Resources

Mike Innes has agreed to join **Graphite Capital** as an inv*stment director in the firm's transactions group, after previously working with the **Royal Bank of Scotland**.

Brad Richter has joined **Fried, Frank, Harris, Shriver & Jacobson LLP** as a partner in the firm's trusts and estates department. Richter previously served as special counsel in the individual clients group at **Kramer, Levin, Naftalis & Frankel LLP**. www.ffhsj.com

Corrections: Arbor Surgical Technologies Inc. is based in Irvine, Calif. Also, the correct ticker symbol for School Specialty Inc. is SCHS.

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