

Klausner, Domain Associates Part Ways Soon After Raising of \$500 Million Fund

A few months after closing on one of health care's largest funds, **Domain Associates** parted ways with General Partner Arthur Klausner.

The split settled around a difference of opinion about how Mr. Klausner would spend his time in managing the new \$500 million fund. Mr. Klausner, 43, was one of the firm's younger general partners.

Domain has no immediate plans to replace Mr. Klausner, who will temporarily work out of the firm's Princeton, N.J., offices.

Questions about partners' roles with a new fund typically are addressed before a partnership is raised, not immediately after. But according to Domain officials, the disagreement concerning Mr. Klausner emerged only after the fund raising, which Mr. Klausner had a significant hand in coordinating. Both Mr. Klausner and General Partner James Blair said the disagreement settled largely around Mr. Klausner's desire to invest in companies with early-stage technologies.

Mr. Klausner said he would have preferred that Domain allocate a portion of the fund toward early-stage investments, including those with products not yet in clinical trials, and allow him to make such investments.

Domain's general partners, however, favored a strategy of investing in companies with more developed products, including those in or near clinical trials. "Looking forward, I wanted to do more early-stage investment than they were comfortable with," Mr. Klausner said.

With the firm's new focus, Mr. Klausner expected to see fewer chances

to invest. The firm's partners suggested he accept more internal firm management duties. But he declined. "I wanted to do more investing," he said.

Asked about the timing of the split, Mr. Blair said the differences didn't become apparent until after the firm closed on the fund. "I don't think we thought about it much during the fund raising," he said, describing the process as leaving little time for attending to other matters.

The disagreement left both sides recognizing that Mr. Klausner might not be satisfied investing the new fund, according to Mr. Blair. "It came down to very minor differences in the end," he said. "He decided he was doing a little bit less of what he really wanted to do and we wanted him to do a bit more" of what he didn't want to do.

Mr. Blair, in answering a question, said Domain's general partners were satisfied with Mr. Klausner's past performance. "We hate to lose him," he said.

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LPs Buy Additional Time For 5AM's Debut Fund

5AM Ventures, the early-stage firm founded in Menlo Park by principals from **Bay City Capital**, is adding from \$20 million to \$25 million to its first fund, giving it up to \$60 million to invest.

The move, according to Managing Director Andrew Schwab, gives 5AM Ventures more time to develop its portfolio of six companies. The firm, only in business for 18 months, has yet to realize an exit.

"Even though we have a track

record at Bay City, everyone wants to see more of what 5AM is all about," said Mr. Schwab, who founded the firm in 2002 with Managing Director John Diekman and Principal Carin B. Mueller.

Scott M. Rocklage, a former CEO of Cubist Pharmaceuticals and other biotech companies, has since come on board as a venture partner.

Dow Pension Fund will be among the new investors in the fund. **FLAG Capital Management LLC** will add to its initial allocation, according to a source.

Versant Ventures, Menlo Park, and **Bay City Capital**, San Francisco, as of late March had not decided whether to increase their own stakes in the fund. No other venture firms are expected to take part in the round up.

5AM's six portfolio companies, all of them in the biotech sector, include **Alexza Molecular Delivery** and **Kalabios**, both of Palo Alto.

Reach 5AM Ventures at (650) 233-8600. —*Tom Salemi*

Essex Woodlands Caps Fund VI at \$400 Million

Essex Woodlands Health Ventures has closed its sixth health care fund at \$400 million, surpassing its \$375 million target.

The Chicago firm, which expects to deploy the fund in up to 30 early- to late-stage companies, is one of the few that invests in almost all areas of health care, including health care services. The firm's diversified approach made it easier to attract capital, according to Managing Director Immanuel Thangaraj.

Essex Woodlands, which began fund raising in September, decided that \$400 million was a responsible amount for a firm with 11 investment professionals, Mr. Thangaraj said. Two of them, Jeff Himawan and Mark Pacala,

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have been promoted to the rank of managing director.

The predecessor fund, raised in 2001, totaled \$280 million. Spinal Concepts Inc., one of the companies backed through that fund, was sold to Abbott Laboratories last June. **Inhibitex Inc.**, a biotech company that Essex Woodlands first invested in in 2002, has filed to go public.

In its first investment through the new fund, Essex Woodlands in March led a \$6 million third round for **BioForm Medical Inc.**, a spin-out from Bristol-Myers Squibb that makes injectable products used in cosmetic surgeries.

The firm's other two managing directors, in addition to Messrs. Thangaraj, Himawan and Pacala, are James L. Currie and Martin P. Sutter. Drs. Cynthia Doerr and Gilbert Gonzales are venture partners and Drs. Phyllis Gardner, Eric J. Topol and Frank E. Young are adjunct partners.

Reach Essex Woodlands at (312) 444-6040. —*Brian Gormley*

For Its Second Fund, De Novo Draws \$250M

De Novo Ventures, a Menlo Park firm that raised its first fund primarily from individuals, drew more heavily on institutional investors to collect \$250

million for a successor.

The amount is \$50 million more than DeNovo had sought but still within the range the firm sees as appropriate to the size of its team and the amount it wants to invest per company.

The firm, which already has made two investments through the fund, expects to back roughly 25 early-stage medical device and drug development companies overall. The new portfolio companies include **Sinus Rhythm Technologies Inc.**, a developer of a treatment for atrial fibrillation that drew \$13 million in a first round.

DeNovo only recently achieved its first exiting opportunity from the \$100 million debut fund it raised in 2000, taking public drug developer Renovis Inc. in February. But its partners have several previous exits to their credit. As an entrepreneur and venture investor with Saratoga Ventures, for example, Managing Director Richard M. Ferrari took four companies public, including surgical device maker CardioThoracic Systems, which made its debut in 1996 and later was acquired by Guidant Corp.

De Novo's managing directors, in addition to Mr. Ferrari, are Frederick J. Dotzler, Joe Mandato, Dr. David M. Mauney, Dr. John B. Simpson and Jay Watkins. Reach them at (650) 329-1999. —*BG*

ARCH Venture Partners Reaches Target for Fund VI

ARCH Venture Partners, an early-stage investor that plans to devote about half its capital to the life sciences, has reached its \$350 million target for its sixth fund.

The Chicago-based firm, which launched the fund in late 2002, concentrates on technologies that emerge from university laboratories. "We're not interested in incremental technology and products," said Managing Director Robert T. Nelsen. "We're really interested in industry-disrupting technologies."

Corporate acquirers "will pay for two things in an uncertain market: profits and things that will threaten their existence," Mr. Nelsen said. "If you have a technology that will do what they do and do it 10 times cheaper, they will be interested."

ARCH thinks it has such a company in **Alnylam Pharmaceuticals**, the Cambridge, Mass., RNAi company that filed to go public in February eight months after raising its first round (*Venture Capital Analyst-Health Care*, March, page 1). ARCH and other investors hope public investors will recognize Alnylam's potential to accelerate the drug discovery process.

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