



Visionaries

~ The YVCS Newsletter ~

UPCOMING EVENTS

The 2006 New York Venture Summit

June 20-21, 2006, Pace University, New York City

This exclusive summit will feature a distinguished line up of more than 35 VCs, a showcase of more than forty companies seeking funding, company presentations and high-level networking opportunities.

A partial list of featured VCs include:

- **Graham Anderson**, General Partner, EuclidSR Partners
- **Greg Blonder**, General Partner, Morgenthaler Ventures
- **Jeff Fagnan**, Partner, Atlas Venture
- **Christiana Goh Bardon M.D.**, Principal, MPM Capital
- **Jay Goldberg**, Senior Managing Partner, Hudson Ventures
- **Bob Greene**, Managing Partner, Contour Venture Partners
- **Eric Hippeau**, Managing Partner, Softbank Capital
- **Habib Kairouz**, Managing Partner, Rho Ventures
- **Chip Meakem**, General Partner, Kodiak Venture Partners
- **Anthony E. Meyer**, Founder & Managing Director, Meyer Ventures

FEES:

Entrepreneurs: \$595

Investors: \$595

Service Providers: \$795

REGISTER: www.vcsummit.com

Deep Pockets:



Repeatability, Consistency Analysis

By: James Bachman

One of the many ways that prospective investors attempt to analyze past performance of a fund sponsor is by investigating the realization multiples ("RM") and/or investment multiples ("IM") of the sponsor's previous portfolio companies. These multiples (as defined below) are very simple metrics (no time weightings) that help to shine some light on the sponsor's track record.

$$RM = \frac{\text{Distributions}}{\text{Contributions}}$$

$$IM = \frac{\text{Distributions} + \text{Valuation}}{\text{Contributions}}$$

In short, when these multiples exceed 1, the portfolio company was a profitable investment. The RM is typically used for fully exited companies, while the IM is used for companies still held in one of the sponsor's funds.

During the due diligence phase, it is likely the investor will look at the distribution of these multiples. This helps to answer questions like the following:

- Did one "homerun" portfolio company carry the performance of a basket of underperforming (multiples < 1) portfolio companies?
- What is the average (median, minimum, maximum) multiple?
- Was more capital invested in the highly successful deals as opposed to the negative performers?
- What is the ratio of winners to losers?

[Deep Pockets continued on the Next Page.]

Life in VC

*An Interview with Raquel Chmielewski,
Associate, Columbia Capital*

Q: Briefly describe your background and experience

~ In 2004, I joined Columbia Capital (www.colcap.com), one of the major communication services / telecom venture capital shops in the U.S. The firm was founded in 1989 and we currently manage about \$2.0 billion in total assets after closing our Fund IV earlier this year. Half of the Partners focus on communications technology and the other half concentrate on communication services. I believe this provides a good balance when evaluating and discussing potential deals.

Prior to joining Columbia Capital, I served as an analyst in JPMorgan's Financial Sponsor Group, where I focused on numerous product, M&A, and buyout transactions spanning several industries. Before switching to sponsors, I had been a member of JPMorgan's Telecom, Media & Technology group, concentrating on various large cap media and cable clients. I have also held internships at the Federal Reserve Bank, Boston, in economic research and at Lehman Brothers, London, in sales & trading. I graduated from Boston University with a BA/MA in Economics and a Minor in Japanese.

Q: How has the experience of working in venture capital compared to your initial expectations of the role

~ My experience has been inline with what I expected and better. Every venture capital firm is different; they run the gamut culturally as well as with their sector, stage focus, and business model. There can be a decent amount of traveling for due diligence, conferences, and board meetings. Buyside is still a project driven industry, with work intensity increasing as a deal closes. In contrast to buyouts, deals here are usually more collegial and co-investing in the norm. And, finally, in VC you meet a lot of accomplished entrepreneurs and have the opportunity to talk with interesting people about new trends, products, services, and ideas.

[LIFE in VC continued on the Next Page.]

Although every investor wants to be a part of the wildly successful deals, most would prefer a fund sponsor that has proven to be a consistent performer. Basically, repeatability (as gauged by the multiple) proves that the fund sponsor has more skill than another fund sponsor who has relied exclusively on homerun deals to carry performance.

Let's not forget that many of the deals that the media publicize are only one of many in a particular fund. Thus, a portfolio company with a RM exceeding 100 may not actually impact the bottom line as much as expected. Moreover, a well diversified limited partner will feel that homerun even less because its money is spread between many funds.

It is worth noting that many of the longstanding venture capital firms have had their fair share of homerun invested over the years. The aforementioned discussion is not to discredit those investments, rather it is to highlight that an investor may be skeptical of the homerun being attributable to skill if it were one of the only profitable (multiple > 1) portfolio companies in the fund(s).

Copyright © 2006 YVCS

TechWatch:



The Military's Effect on Technology

By: Eric Olson

This memorial day I found my thoughts drifting to war and how it has shaped the world in which we live. America, the land of opportunity, was born out of a war. Americans then went forward and fought wars to end tyranny across the globe and to liberate other people from oppression. My grandfather was one of those Americans. He served in the Air Force during WWII and I am forever grateful for his sacrifice. It, along with the sacrifices of others, has allowed us to live our lives as free people and pursue what we love. War also yields advances in technology. These advances in technology have affected our daily lives in ways we may not even know, and may shape our future.

MILITARY TECHNOLOGY FROM HISTORY

Most of us don't think about jet engines much. However, they power a lot of what we do. They make the world smaller and that has certainly helped move the global economy further along. It is not uncommon now for businesses to start working internationally right from the get-go, and jet aircraft certainly make the essential face to face meetings possible. Jet engines took off, so to speak, in the 11th century. The technology was pioneered by the Chinese who initially used rockets to propel fireworks, but quickly moved to using that technology to propel weapons. Moving forward to WWII, the Germans and Japanese began using jet engines on airplanes to overcome propeller efficiency issues – propeller efficiency began to level off as the blades moved closer to the speed of sound – and the planes they developed, while crude, were seen as the future of aviation. After the war, engineers began to devote more time to the jet engine concept and, while producing some fantastic aircraft for the military, began to produce more and more civilian jet aircraft. These have definitely changed our lives, in both the business and personal realms, allowing us to come together more quickly and easily. (For more information on jet engine development – please see wikipedia).

[Tech Watch continued on the Next Page.]

Q: What are your responsibilities as a Venture Associate?

~ Associates at Columbia Capital are an integral part of the investment process and are paired with a Partner on every new deal or existing portfolio company. On average, half of my time is spent diligencing new deals; this includes making on-site trips, reference calls, sector analyses, sensitivity models, and the final investment memo. The other half of my time is spent working with our current portfolio companies. Partners at Columbia take board seats on each of our companies and it has been invaluable to attend these board meetings as an observer. Our current companies have been quite active with M&A transactions, debt raises, and equity fund raises.

Additionally, at times the management teams may be so lean, busy, or new that associates will step in and run some of the processes. This might include taking ownership of the company's financial or operating model or running point on some of the lender, hedge fund, banker, or legal developments.

Q: Where do you see yourself in 5- 10 years?

~ Professionally, I intend to leverage my experience and skills and either stay on the investment side or remain in the high growth telecom, technology sector but in a development role in a startup or dynamic company. I also still hold an affinity for Japan and international opportunities so perhaps an overseas-focused, high tech/telecom startup or fund will get woven in at some point! But at whatever point of my career, it's important to me to continue to learn, build my network, and evaluate opportunities as they come.

Q: What are your thoughts on the Mid-Atlantic region as a hub for technology and venture capital?

~ Having come from NYC and Boston, I was impressed. There was more than I expected and a lot of talent and diversity in the DC and Mid-Atlantic area. Also, there is a tremendous amount of entrepreneurial spirit. Besides the large and active telecom companies that are headquartered here (Nextel/Sprint, Verizon/MCI, America Online, XM Satellite Radio, and Primus), there are research and engineering driven firms, like the CIA, government contractors and think tanks.

[LIFE in VC continued on the Next Page.]

Another piece of military technology that has significantly altered the way we live is – you guessed it - the internet. The internet started out as a project of the Defense Advanced Research Products Agency, or DARPA. DARPA was formed as a way for the United States to regain the technical lead over the USSR, which had recently launched Sputnik. The fruits of DARPA's hard work, ARPANET, launched on October 29, 1969 and we have never looked back since. ARPANET was the early form of the internet that allowed instant communication among academics and military and intelligence entities. In the early 1990s the growing (mostly academic) network gained a public face called the World Wide Web which was ushered along through Tim Berners-Lee's developments of hypertext markup language (HTML) and hypertext transfer protocol (HTTP). Shortly after the emergence of the World Wide Web, researchers at University of Illinois at Urbana-Champaign created the first mosaic web browser, that would eventually be called Netscape, which gave the public an easy way to navigate the web, thus ushering in the information age.

Those are just two of the many technologies spawned by the military that have profoundly affected our daily lives. The military is still developing new technologies to help our troops and defend our freedom. Some of these technologies are also likely to change the way in which our daily lives unfold. Two of these technologies are mesh networks and nanotechnology enabled photovoltaic cells.

MILITARY TECHNOLOGY OF THE FUTURE

Mesh networking is a fascinating concept. Essentially, mesh networks allows the grouping together of sensors in an efficient way to gather data about the physical world in ways never thought possible. Mesh networks can inform soldiers of perimeter breaches by the enemy and give them essential battlefield data on widespread areas without putting soldiers in harm's way. The data they can retrieve will allow soldiers to make crucial decisions that will save lives. Mesh networks also have the ability to configure themselves and heal broken connections. The main company in this space right now is [Dust Networks](#), a venture backed company that counts the government's VC fund, [In-Q-Tel](#), as one of its investors.

The military is behind the idea of mesh networks because it will allow for easy to set up distributed systems that assist soldiers. Mesh networking also has many uses in our everyday lives. The main non-military application today allows mesh networks to be set up at various points in an assembly line and in complex machinery. The network is then able to inform workers quickly and efficiently of anything that is going wrong or not performing. Mesh networks can also be helpful in automating systems within buildings, such as temperature controls, lighting controls, environmental modeling, and security systems, which can all be controlled more efficiently through mesh networks. The mesh networks that Dust Networks is creating will allow both soldiers and civilians more control over their environments, which will lead to lives saved and energy costs reduced.

Energy reduction through mesh networks is important as our energy consumption is far too high. Scientists are constantly looking for ways to reduce energy consumption and to create "green" ways of generating energy. One green energy generator is the sun. We can harness the energy of the sun through **photovoltaic cells**, more commonly referred to as solar panels. Solar panels have been around for a long time but they are hard to implement. You need a very large area of cells to generate a meaningful amount of energy and the solar cells are not easy to transport. Enter [Konarka](#).

[Tech Watch continued on the Next Page.]

These firms help propel R&D and ultimately augment startups and businesses throughout the D.C., Virginia, and Maryland area. That helps with the entrepreneurial pool and work force. Overall, the area continues to be strong in legacy investment areas such as the Internet, security, telecom and wireless.

Q: A commonly discussed topic is the lack of women in VC, what are your thoughts?

~ In VC and buyouts, I do not see a lot of women at the Partner level. But overall I do see an increase of talented, experienced, bright women entering and staying in buy-side positions. It will be interesting to see if they continue on this career path. The more women that go for associate positions, or go to b-school, or stay in the market in a professional finance or investment role the more they help build that diversity and role model visibility. And assuming one has the relevant skillset and qualities, diversity in additional networks, ideas, and backgrounds often strengthens a deal team or a fund.

Q: What advice do you have for those individuals looking to break into venture capital?

~ There is no one path to breaking in; I've worked with VC professionals that have various backgrounds, some have been operators, entrepreneurs, engineers, bankers, attorneys or journalists. One way to start a dialogue is to target shops, get to know people, and get on their radar screen. The rest often comes down to luck and timing in order to be what they are looking for when a position opens.

Q: What advice do you have for those Companies looking to receive funding from Columbia Capital?

~ One of the best ways to get the attention of a venture capital firm is to come in through a referral (1 or 2 degree of connection). It also helps to have people on your team that have been successful in previous start-ups or raising capital as they may have investor contacts. Also, get your business plan out there. You might attend contests, trade shows, drop off your (well-developed) business plan, and talk, talk, talk. Talking with VCs and others might spark something; Partners may have an existing portfolio company that could benefit from working with you.

Copyright © 2006 YVCS

Konarka is a Lowell, Massachusetts-based company that is using nanotechnology to create what they call power plastics. Essentially they have figured out how to make efficient solar cells that are also flexible and easy to transport. Their cells can be colored or patterned to suit customer needs and the colors and patterns do not affect the efficiency or flexibility of the cells.

Konarka's solar technology is of great interest to the military which has already started working with Konarka to develop portable solar cells for their soldiers as well as portable camouflage electricity-producing buildings. The solar cells will help soldiers power battlefield laptops and communications systems while the portable solar barracks will allow the military to have more range as they will no longer need to be near a power source. These portable solar cells will also help civilians manage their essential electronic devices. Forged to charge your cell phone, blackberry, iPod, and laptop? Not to worry! You can just pull out your ultra thin Konarka solar panel, unfold it, plug it in to your device and, assuming you are in the sun, it will begin charging up. I know I would love to get one of these cells for the times I forget to charge my cell phone. Konarka's overall goal is to be able to take anything that exists today and allow it to create energy. Who knows, someday even the walls of your house may be generating your energy.

Well, I hope you have enjoyed this (very brief) look into military technology and how it has and will change our lives going forward. It has been fun to look back and into the future of technology as well as to reflect on the great sacrifice our soldiers make everyday to keep us free and able to create fun technology and new companies. If you know a soldier or see one on the street go ahead and thank them for everything they do and, while you're at it, why not ask them about any cool technologies they have been using. You never know, it may end up in your hands in the not too distant future.

Copyright © 2006 YVCS

IP, Capital Raising and Life Science Ventures

By: *N. Mitchell*

The life sciences sector is one of the fastest growing and most important industries in the global economy. "Life sciences refer to the scientific study of the living world as a whole. It's a new synthesis of several traditional disciplines, including biology, zoology and botany with newer, more specialised areas of study, such as biosciences, biochemistry, biotechnology, bio-informatics, genetics, pharmaceutical studies, food science and technology and environmental science"ⁱ. According to the [PWC Moneytree Venture Capital Survey](#), the life sciences sector, composed of biotechnology and medical devices companies, attracted 28% of all venture capital investment in 2005 – \$6 billion in 608 dealsⁱⁱ.

Investing in life sciences companies is fraught with risks but also offers the potential for spectacular returns. Dr. Lorenzo Pellegrini, Principal of Care Capital, which invests in life science companies, with a particular focus on later stage pharmaceutical and biotechnology companies, explains the pros and cons of investing in life sciences. "The investment life cycle is very long and is dictated by the regulatory approval process. Volatility is very high and dictated by achieving certain clinical milestones and endpoints.

[IP, Capital Raising continued on the Next Page.]

Book Review

Go Big or Go Home

Wil Schroter

ISBN: 1-59971-274-1

234 pages

Published 2005, by GO BIG Medi



Go Big or Go Home, written in 2005, is a good read for those people just or recently beginning to learn, get involved or launch their own startup. While not highly technical, the book will allow readers to understand the basics on launching and running a startup. Additionally, the book highlights key aspects of the entrepreneurial struggle and aims to assist entrepreneurs in reaching the goal of success. Additionally, the book is segmented into easy to use chapters including (Vision, Growth, Marketing, Capital and Management). Moreover, the book's format allows for readers to understand the salient points through real life examples, recommendations and summaries.

Basic Information

- The book defines systems in which to operate more efficiently, scale your business, set milestones, and achieve success
- Go BIG provides the startup entrepreneur with a point of view on working with little or few resources.
- The book identifies many of the minute and detail issues that entrepreneurs often struggle with (setting goals, defining markets, solutions, and alternatives)

Definitions and Insights

- Learn some different strategies on getting noticed and enhancing the companies exposure and presence
- Understand from real life examples how other recent success have taken come to pass
- Comprehend some techniques for raising or working under capital constraints
- Discover ways to grow quickly in size, presence and impact

[BOOK REVIEW continued on the Next Page.]

However, the inflow and outflow of capital are more stable than in technology venture investments – this is due to the high barriers to enter as you need specific, hard-to-find expertise to be able to understand pharmaceutical development (combination of science, medicine and business knowledge). This ultimately protects returns.”

The life science companies that have the greatest prospects for attracting funding from venture capitalists are those with high quality management, a disruptive technology or product with a sustainable competitive advantage that meets a large, unmet market need, and a solid intellectual property strategy.

A strong intellectual property portfolio is of enormous value to life science companies since much of their value is derived from the intellectual property rights, particularly patents, they possess. “Intellectual property is defined as the patents, trademarks, copyrights and trade secrets owned by a corporation or an individual. It is an asset legally protected on a national basis. As a protected asset, intellectual property has an economic value, similar to real and personal property. It can be sold, licensed, exchanged or gifted. Its owners can prevent its unauthorised use or sale.”ⁱⁱⁱ

Patents are commonly seen as the most important intellectual property (“IP”) right for life science companies. “A patent for an invention is the grant of a property right to the inventor. Generally, the term of a new patent is 20 years from the date on which the application for the patent was filed in the United States. The right conferred by the patent grant is, ‘the right to exclude others from making, using, offering for sale, or selling’ the invention in the United States or ‘importing’ the invention into the United States.”^{iv}

This ‘right to exclude’ others has traditionally been used by life science companies to erect a significant barrier of entry to its competitors into the marketplace. But it is also a way of developing valuable strategic alliances and joint ventures, as the intellectual property protection can increase the value of the technology or products and improve a company’s ability to attract investment and partners.

Life science companies can strategically use their intellectual property assets to generate revenue in a number of different ways including licensing their IP and developing joint ventures and strategic alliances. Venture capitalists place a high value on strategic alliances and joint ventures as they provide an opportunity to demonstrate the validity of the science and its commercial potential.

Venture capitalists will conduct an intellectual property due diligence audit to evaluate a company’s intellectual property portfolio, before making a decision about whether to invest. The audit will involve an examination of the nature, scope and strength of the IP held by the company, as well as an assessment of any potential infringement issues, by conducting a freedom to operate analysis. A freedom to operate analysis is particularly important when a company is looking to introduce a new technology or product to the market. “Freedom to operate” means “being able to commercialize a product without infringing the intellectual property rights of others.”^v A company needs to identify any third party patents early on that may have claims to its proposed technologies or products that would impact its ability to bring them to the marketplace. An infringement could be disastrous, resulting in expensive patent litigation and disruption to a company’s operations.

[IP, Capital Raising continued on the Next Page.]

“Real World Exaples...”

- Paypal
- Netflix
- Swapalease.com
- Napster
- Kozmo.com

In all, the book is a helpful resource to new entrepreneurs launching companies. Additionally, the book is a good checklist of both reminders and new strategies for the startup to employ. For those more advanced or more knowledgeable on venture capital and startups, you might find the read a bit repetitive, but still a good refresher.

Copyright © 2006 YVCS



GET INVOLVED

YVCS currently has **1,748 Members** located throughout the world. 2006 stands to be a tremendous year for the organization, with launches of regional chapters, new content and tools.

As we continue to grow and expand we are looking **for new additions to the team**

- Contributors to our newsletter
- Vice President, Sponsorship and Contributions
- Vice President, Marketing and Awareness

If you have interesting ideas on venture capital, entrepreneurship, technology, capital raising, limited partners, the alternative asset class (distressed debt, hedge funds, buyout etc) we would like to know and share those ideas with the membership base. Contact us.

Contact us at info@yvcs.org for more info

The cornerstone of a life science company is its intellectual property. A life science company that cannot demonstrate the ability to bring its technology or products to market will find it very difficult to raise venture capital. A strong IP strategy leads to higher returns for venture capitalists and so they look for companies that have a solid IP strategy focused on building a high value IP portfolio, and that can leverage those IP assets effectively into new revenue streams and markets.

ⁱ S. Bizzozero ‘Life sciences are alive and kicking’ 06/25/02, *The Guardian* newspaper

ⁱⁱ PWC Moneytree Venture Capital Survey Full Year and Q4 2005 results

ⁱⁱⁱ Intellectual property: The driving force for growth and funding - Judith E Schneider. *Journal of Commercial Biotechnology* London:Spring 2002. Vol. 8, Iss. 4, p. 320-324 (5 pp.)

^{iv} Patent section - United States Patent and Trademark Office

^v New Product Launch – Evaluating your freedom to operate –WIPO – E. Burrone

Copyright © 2006 YVCS

YVCS Sponsors

