



# Visionaries

~ The YVCS Newsletter ~

## UPCOMING EVENTS

### September

#### ANGEL INVESTING

Be sure to check out the upcoming event on Angel Investing. The esteemed panel will include a myriad of venture capitalist, angel investors and a startup.

### November

#### NEW MEDIA

This educational event will focus on the emerging technologies and opportunities in the new media space. An impressive group of venture capitalists and entrepreneurs will discuss their focus and where the next big players will come from

### January

#### CAPITAL RAISING

Featuring a host of impressive limited partners, this panel will focus on the metrics and decision making tools investors into funds make. This is a must attend event for general partners.

### April

#### DEAL STRUCTURE & TERM SHEETS

This workshop will breakdown the latest in venture capital term sheets and walk participants through the benefits of current structures.

#### WHAT ARE YOU INTERESTED IN??

If there are topics you would like to see either as events or featured in the newsletter, please LET US KNOW

Email: [info@yvcs.org](mailto:info@yvcs.org)

## East Cost vs. West Coast – Seed and Early Stage Investing Supremacy

March 27, 2007

By: Paul J. Marino

What is the reason for the tremendous disconnect between geographic regions when it comes to seed and earlier stage investments<sup>1</sup>; this divergent development per regions (specifically, NY Metro and Silicon Valley) has to be more than just the obvious maxim, “money attracts more money” (the more money that is deployed the more companies come to the marketplace seeking money, the more money is deployed, etc.) or does it?

This article intends to conduct a cursory examination of the foregoing and attempt to answer the question, has the West won.

Having practiced exclusively on the east coast (New York metro area) and dealing mostly with companies looking for cash, my outlook may be tainted by the “grass is always greener” effect. Nonetheless, after yet another round of “beat-up-due-diligence” negotiations with a nameless venture firm, and a venture seminar showing the disparity of funding between east and west coast A & B round closing, I began to think that perhaps the grass is greener out west (heck forget about the grass there is just a lot more green).

To start, the east coast is certainly growing in terms of venture dollars (since the 2000 there has been \$13.22bn deployed for NY Metro and NE). Boston has been a hub for venture investment since General Doriot founded American Research and Development Corporation in 1946; New York (and the metropolitan area) is well flush with private equity and hedge fund cash; and metro-Washington, D.C. has seen significant growth before AOL became a part of Time Warner (or was it the other way around). Anyway, the point is that there is life outside Silicon Valley but there must be a reason (beyond the great weather) that Silicon Valley is the heart of venture capital in the US. Clearly, one could write a treatise on trying to answer this question; however, due to spatial limitations of this article, we will concentrate on the earlier stage deals and juxtapose Silicon Valley against (primarily) NY Metro.

In order to compare the regions we must first try to create a common denominator. Currently, most publications focus on four stages of venture capital deals which are:

# Letter from the Editor

## *The News of YVCS' Demise is Greatly Exaggerated*

Greetings and Salutations from YVCS.

Over the last few months many of you have asked what is going on with YVCS or more to the point, where has it gone? Well, the long and the short of it is life has gotten in the way. Between having children, starting a business, going back to school and of course working (a lot), things have been a "little hectic". With that being said, we are excited to be back and present our Spring newsletter for your reading pleasure; we hope you enjoy it.

We are also excited to re-launch our speaker series this September—our first event will be on Angel Investing which like all of our events will be geared towards the investor, the entrepreneur and those individuals passionate about learning the ins and outs of the venture process. As is always the case at YVCS, we are firmly committed to helping entrepreneurs and venture capitalists at all stages of development. From the nascent to the seasoned serial entrepreneur we believe that each person helps contribute to the life blood of the venture eco-system. In that same vein, for the venture eco-system to flourish all parties involved (*i.e.*, from the \$200,000 investor to the \$2bn private equity firm) must have a greater understanding of the interoperability of business and the interconnection of capital.

It is for this reason that we have re-focused our energies in some of our existing chapters in Boston, Palo Alto and London—and we have begun to organize a chapter in the Stamford/Greenwich area of Connecticut to better serve the venture community's needs in total.

In all, we are primed to continue with our ongoing mission statement of educating the next generation of venture capitalists. Lastly, we are eager to hear from you, so don't be shy, email us questions, comments, suggestions or concerns at [info@yvcs.org](mailto:info@yvcs.org)

Regards,

Paul J. Marino                      Mathew Guliner  
COO YVCS / Editor              Founder and President  
Visionaries Newsletter        YVCS

- Startup or seed deals ("*Friends and Family*");
- Early stage deals (typically "*A Round*" deals);
- Later stage (typically later stage "B or C" rounds of financing); and
- Expansion capital (typically the do or die round for management, the company or both).

Taking a snapshot of the third quarter of 2006 from the MONEYTREE SURVEY™ as published by PRICEWATERHOUSE COOPERS/THOMSON/NVCA<sup>1</sup> (hereinafter "**MoneyTree**"), the greatest dollar and frequency of deals occurred in the expansion capital round with \$2.854 bn deployed and a total amount of deals equaling 300, and in last place was early stage investments followed by startup/seed investments (visit [www.yvcs.org](http://www.yvcs.org) for a 10 year snapshot of NY Metro, Silicon Valley and New England).<sup>1</sup> For investors who lived through the Internet bubble, this is not "ground breaking" information because (i) investors learned their lesson when it comes to investing substantial amounts of capital in an unproven startup company and (ii) later stage companies seeking expansion capital usually require more cash flow to push their proven concept into the marketplace. Further, institutional investors find it difficult to rationalize an investment in seed/early stage companies (usually comprised of two guys, a white board and a dog) because the risk/reward rationalization vaporizes without a viable exit strategy, which was previously the public market (and could be trending to the AIM). Further and as a result of the evaporation of the public IPO market early stage exists have increased from 5 to 7 years for investors; which could be a reason why so many companies are started to be sold rather than to go the distance to the IPO end zone. The good news, however, for startup/seed and early stages companies is that they represented a combined 278 total deals totaling \$1.178bn deployed (a 10% increase year-over-year).

Further, according to the MoneyTree at the end of the third quarter in 2006, there is almost four times the money deployed (invested) in Silicon Valley than the next closest geographic area—New England. To state the obvious, Silicon Valley is far and away the venture capital headquarters of the United States. However, that's only the partial story; the intriguing part is the chasm between early/seed and later/expansion stage deals between the three top regions (NY Metro, New England, and Silicon Valley).

Without being overly analytical let's assume that the standard ratio of money deployed in Silicon Valley is approximately 3-to-1. Hence, for every three dollars deployed in Silicon Valley one dollar was deployed elsewhere. For this reason, since 1995 Silicon Valley is number one in every stage of development (this is true taking a ten year snapshot too) with New England and NY Metro finishing (interchangeably) in second and/or third place respectively.<sup>1</sup> However, the ratio changes when you get down to the seed stage round to a little more than 4:1.

Interestingly, while the following charts are just a snapshot of funding occurrences (3<sup>rd</sup> quarter of 2006), they are consistent with the ten year funding pattern and thus indicative of deal flow/closings.

The first two charts deal with expansion stage and later stage rounds and are fairly consistent with historical regional differences. However, in recent years, especially in the New York Metro area, what makes these stages interesting is the presence of private equity shops and hedge funds. The presence of these non-traditional venture investors is one of the factors (together with the lack of "pure" venture shops in both New York Metro and New England area compared to Silicon Valley) contributing to the dramatic difference in the number of deals per dollars displayed.



**National Rural Telecommunications Cooperative – VP Business Development**

The National Rural Telecommunications Cooperative (NRTC) is an organization which represents the advanced telecommunications and information technology interests of more than 1,300 rural utilities and affiliates in 47 states, and is searching for a Vice President of Business Development. This position offers a unique opportunity for the right candidate who has demonstrated success working in analysis of emerging technology for business investment and/or development. This position holds financial and personal growth potential for someone with a strong desire to continue to learn as well as further their career while working with an innovative organization.

**The key business outcomes expected for this position are:**

- Research, identify and evaluate relevant emerging and existing technologies for NRTC and its' members for investment and/or business relationships.
- Collaborate and communicate effectively with senior staff in a succinct and timely manner from identification of opportunities through hand-off of accepted business opportunities.
- Initiate and develop relationships with potential business partners to facilitate new opportunities.
- Facilitate creation of business plans and models as well as due diligence process.
- Take practical actions necessary to move accepted business plans up to kick-off and execution.

**The right candidate for this position will have:**

1. Past experience and continued desire and interest in learning about technology as it relates to business opportunities.
2. Experience conducting analysis of emerging technologies and business opportunities.
3. Strong knowledge of and ability to conduct financial modeling, due diligence, and sourcing and evaluating new opportunities.

**- Expansion Stage<sup>1</sup>**

Region	Money Deployed	Percentage of Total	No. Deals	Dollars Per Deal
Silicon Valley	\$735MM	32.00%	76	\$9.67MM
New England	\$316MM	13.77%	30	\$10.53MM
NY Metro	\$245MM	10.69%	17	\$14.41MM
LA/Orange County	\$241MM	10.48%	27	\$8.925MM
San Diego	\$178MM	7.76%	15	\$11.86MM

**- Later Stage<sup>1</sup>**

Region	Money Deployed	Percentage of Total	No. Deals	Dollars Per Deal
Silicon Valley	\$780MM	40.88%	71	\$10.98MM
New England	\$210MM	10.98%	29	\$7.24MM
NY Metro	\$155MM	8.13%	7	\$22.14MM
LA/Orange County	\$130MM	6.83%	10	\$3.25MM
San Diego	\$103MM	5.39%	13	\$7.92MM

**- Early Stage<sup>1</sup>**

Region	Money Deployed	Percentage of Total	No. Deals	Dollars Per Deal
Silicon Valley	\$494MM	40.13%	93	\$5.31MM
NY Metro	\$168MM	13.67%	25	\$6.72MM
New England	\$130MM	10.58%	30	\$4.33MM
Midwest	\$96MM	7.83%	14	\$6.85MM
Southeast	\$77MM	6.229%	13	\$5.92MM

**- Seed Stage<sup>1</sup>**

Region	Money Deployed	Percentage of Total	No. Deals	Dollars Per Deal
Silicon Valley	\$150MM	52.45%	20	\$7.5MM
New England	\$39MM	13.66%	7	\$5.57MM
North Central	\$15MM	5.24%	1	\$15MM
Philadelphia	\$15MM	5.11%	2	\$7.5MM
Metro				
Northwest	\$12MM	40.5%	3	\$4.0MM

First, as one would expect Silicon Valley leads the way in each stage of development. For example, in the Expansion Stage there were: (i) 17 total deals in the NY Metro area totaling approximately \$245mm deployed; (ii) 27 total deals in the LA/Orange County area with \$241mm deployed; (iii) 30 total deals in New England with \$316mm deployed; and (iv) 76 total deals in Silicon Valley with \$735mm deployed.<sup>1</sup> Thus, there were two-thirds less investment activity in NY than there was Silicon Valley. However, looking at the seed stage (the other end of the investment continuum) NY Metro does not even show up and the second place finisher, New England deployed about \$111mm less.

[To read the entire article in full, log on to [www.yvcs.org](http://www.yvcs.org).]

4. Demonstrated ability to collaborate and communicate effectively to achieve organization goals and build constructive relationships with staff, members and business partners.
5. History of success in bringing business opportunities to execution point.
6. Bachelor or other advanced degree required.

**Why a top performer should consider this opportunity:**

- This is an innovative organization with proven success in providing the latest technology to meet the needs of rural communities and consumers. Technology products such as IPTV, Wildblue satellite internet, voice over IP, and member-branded wireless cellular service are just some of the offerings NRTC has developed for its members.
- Opportunity to spend time learning and investigating new technologies for practical business applications.
- Financial and personal growth in a results oriented progressive organization.

**Compensation will be:**

- ✓ Salary Range 130-170K plus significant bonus potential.
- ✓ Sign on bonus.
- ✓ Relocation if necessary.
- ✓ Full array of health and welfare benefits, retirement plans, and work/life benefits.

If you are interested in this opportunity please contact Gail Lang at 703 534-3151 or forward resume to [Glang@hureco.com](mailto:Glang@hureco.com) **AND** [info@yvcs.org](mailto:info@yvcs.org)

**TechWatch:  
What's the Deal with Twitter**

If you're part of the tech community or follow it with any regularity I am sure that you have heard of the new service from Obvious Corp, Evan Williams' (Blogger Founder) latest venture, called Twitter (<http://twitter.com/>).

**The Band of Angels and Venture Capitalism:  
An Interview with Dr. Ian Sobieski, Ph.D., Managing  
Director of the Band of Angels.**

*By Samuel Kwok*

Dr. Ian Patrick Sobieski is the Managing Director of the Band of Angels, Silicon Valley's premier and oldest organization still dedicated exclusively to funding and advising seed stage start-ups. Dr. Sobieski has helped lead the organization since 1997. He is also the founder and manager of the Band of Angels Fund, L.P. a \$50M venture fund, raised in 1999 exclusively from major institutions. In May of 2006, Dr. Sobieski was invited to present testimony to the United States House of Representatives' Committee on Small Business on the Access to Capital for Entrepreneurs Act 2006.

Q: Briefly describe your background and how you came to lead the Band of Angels.

~ My intention was to become a University Professor, so I came out to California to get a Ph.D. at Stanford in Aeronautical Engineering. While I was doing that, the whole entrepreneurial culture in Silicon Valley was evident. I worked at start-ups in the evenings to make money and caught the bug. So while I finished the Ph.D., I never pursued the academic track. I got directly into a start-up, one thing led to another, and I ended up helping a very early-stage start-up that did very well in the Internet space ([www.evite.com](http://www.evite.com)). After that venture was completed, I joined the Band of Angels ([www.bandangels.com](http://www.bandangels.com)) in 1997. It was an organization that was still very early in its life; the organization didn't have any office, didn't have a meaningful budget or a permanent staff. But, it did have a collection of about 60 or so of Silicon Valley's most successful entrepreneurs who were interested in investing their time and money into new start-up companies and had great deal flow.

Q: What makes the Band of Angels so successful? How do you ensure quality members and deal flow?

~ The deals come primarily from the members themselves and from the community at large. The Band has a strong brand as a result of its years of activity, and it's that brand that gives us the ability to attract the best deals. Our best deals and our exclusive proprietary deal flow come from our members. Every one of them is a recognized source of capital in the community, so they are pitched all the time on their own, regardless of their affiliation with the Band. Once in a while, they find a deal that is truly exceptional, and it is those deals that are brought to us that create our unique deal flow.

[To read the entire article in full, log on to [www.yvcs.org](http://www.yvcs.org)]



Ever since the SXSW conference a few weeks ago the service that allows users to broadcast messages to their “followers” who can receive them via text message, IM or via Twitter itself has been the talk of the town. However, I have to admit that in its current incarnation Twitter does baffle me a bit but it’s not because the service can’t be very useful it’s because of the way users are using Twitter.

A lot of the users on Twitter are using the service as a microblogging platform where they alert their followers about very mundane things like the fact that they just took their dog for a walk or the fact that they are working on their taxes. Once you begin to connect to a enough Twitterers the amount of messages can be overwhelming. Of course I like my friends a lot but do I really need to know that they just made toast?

It seems as if Twitter could become (and possibly already is) a large distraction that will cause people to become less productive. That said, there are also a lot of very good uses for Twitter that should be more and more exposed as time goes on. A couple of those uses are:

1. Planning meet-ups with your friends
2. Tying people together at conferences

The conference angle is a no-brainer and it is probably why SXSW was the big breakout for Twitter. How many times have you met some folks at a conference but forgot to get their number and couldn’t find them later when you wanted to grab a beer? If you hooked in with them on a Twitter a single message can tap everyone you’ve met making it easy to find one another. Meeting up with your friends would also be easier since you could simply Twitter your location or where you are heading and all of your friends will get the message.

While I can’t say I get the hype over Twitter that the microbloggers have caused I do see that it can be useful in the long run as a great way to tie groups of people together. Keep your eye out for Twitter and what they do going forward. I think we’re probably in for some surprises.



# Moving the Needle

## VCs Focus on the Hispanic Demographic

By: Mathew Gulner

As investors scour the landscape for new themes and ideas, a group of new funds have looked to macro indicators such as population growth and disposable income to generate deals. As a result of this analysis, these funds have focused on the Hispanic community and the companies that target the tremendous growth and wealth the demographic will have in the coming years.

### Growth Statistics

According to U.S. Census Bureau, the Hispanic population in the United States will rise from 36 million in 2005 to 59 million in 2025<sup>1</sup>. More importantly, this constituency’s disposable income is approximated to be \$700 Billion<sup>2</sup> and growing. With this type of buying power, it is understandable why companies as large as Ford Motor Company and Qwest Communications are paying attention and paying for targeted advertising.

### Venture Capital Funds Targeting the Sector

Firm Name	Fund Size (\$ MM)	Minimum Deal Size (\$ MM)	Maximum Deal Size (\$ MM)	Location
Central Valley Fund	\$80	\$2	\$5	Davis, CA
Darby-BBVA	\$175	\$15	\$40	Washington, DC
Goldman Sachs Urban Inv. Grp	NA	\$5	\$25	New York, NY <a href="http://www2.gsf.com">http://www2.gsf.com</a>
Hispania Capital Partners	\$125	\$5	\$10	Miami, LA and Chicago
Ibero American Investors Corp	NA	\$0.05	\$0.50	Rochester, NY
Nexos Private Equity	\$225	\$10	\$25	New York, NY
Nogales Investors I	\$99	\$5	\$20	Los Angeles, CA
Palladium III	\$500	\$15	\$50	New York, NY
Pinto American Growth Fund	\$75	\$5	\$10	Houston, TX
RC Fontis	\$150	\$5	\$10	Pasadena, CA
RGG Capital Partners	NA	NA	NA	Fort Worth, TX

As of: 1-23-07

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