

Member Quarterly

MARCH 2011

NASVF UPDATES AND ORGANIZATIONAL NEWS

ISSUE THREE



A Message from Jim Jaffe, President & CEO

"Entrepreneurs embody the promise of America: the idea that if you have a good idea and are willing to work hard and see it through, you can succeed in this country. And in fulfilling this promise, entrepreneurs also play a critical role in expanding our economy and creating jobs." - PRESIDENT BARACK OBAMA, JANUARY 31, 2011

This quote from the President is from the launch of Startup America. I had the privilege of attending the launch of Startup America and the Startup America Partnership in Washington, DC. Startup America is the White House initiative to celebrate, inspire, and accelerate high-growth entrepreneurship throughout the nation.

NASVF is participating in the early-stage of the Startup America initiative by attending meetings hosted by the White House Office of Science and Technology Policy (OSTP) and the Small Business Administration (SBA).

The core goals of Startup America are to increase the number of new high-growth firms that are creating economic growth, innovation, and quality jobs; celebrate and honor entrepreneurship as a core American value and source of competitive advantage; and inspire and empower an ever-greater diversity of communities and individuals to build great American companies.

The initiative is led by Steve Case, Chairman and CEO of Revolution LLC and Chairman of The Case Foundation and Carl J. Schramm, President and CEO, Ewing Marion Kauffman Foundation. The Startup America Partnership is a private, non-profit entity. Scott Case is the CEO of the Startup America Partnership.

There are several new programs being launched by the SBA as part of the Startup America program that include two \$1 billion initiatives for impact investing and early-stage seed financing:

- The Small Business Administration (SBA) will commit \$2 billion as a match to private sector investment over the next five years in promising high-growth companies. Using existing authority, with no new cost to taxpayers,

and the operating infrastructure of the Small Business Investment Company (SBIC) program, SBA-guaranteed bonds will match private capital raised by these privately-owned and managed investment funds and serve as a catalyst for accelerating capital support for startups and high-growth firms.

- \$1 Billion Impact Investment Fund: SBA will commit \$1 billion to those funds that invest growth capital in companies located in underserved communities. This will include investing in economically distressed areas, as well as, those companies in emerging sectors such as clean energy. SBA will provide up to a 2:1 match to private capital raised by these funds, partnering with private investors to target "impact" investments.
- \$1 Billion Early-Stage Innovation Fund: Early-stage companies face difficult challenges accessing capital, particularly those without the necessary assets or cash flow for traditional bank funding. For high-growth companies, the gap is particularly acute in the so-called "Valley of Death" for financing rounds between \$1-4 million. Over the past 4 years only 6% of all venture capital has been deployed in that stage, with 70% of the financing going to only three states – California, Massachusetts and New York. The Innovation Fund will target this gap, providing a 1:1 match to private capital raised by early stage seed funds.

NASVF will continue to report on the progress of the Startup America Partnership in NetNews and on our website (www.nasvf.org).

NASVF participated in the 1st Annual Innovation Coalition meeting in Washington, DC. The Fly-In featured speakers from Congress, Federal Agencies, and the exchange of ideas to support the Startup America initiative along with individual meetings on Capitol Hill. We have a few photographs to share with you from the event and you can read more on the next page.

Look for new member benefits coming soon and thank you for your support and membership in NASVF.

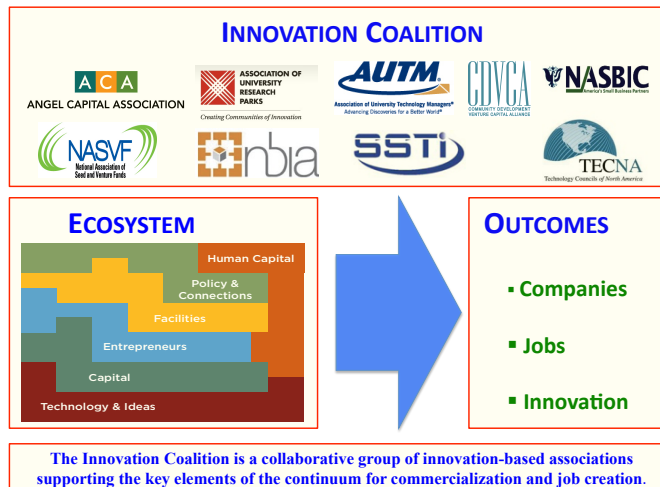
Jim

In this Issue:

- Message from Jim Jaffe
- NASVF and the Innovation Coalition

- Best Practices Tip from Ben Franklin Technology Partners
- NASVF Committee Achievements and Updates
- Welcome Wagon: Introducing New NASVF Member

The Innovation Coalition



NASVF Board Member Brian Darmody speaks to attendees at the Innovation Coalition Fly-In held February 16, 2011 in Washington DC.



L: Senator Mark Pryor (D-AR) and R: John Fernandez, U.S. Assistant Secretary of Commerce for Economic Development both spoke to the attendees at the Innovation Coalition meeting.



The Coalition & Fly-In

The Innovation Coalition is a collaborative group of nine tech-based membership associations representing over 1,300 organizations world-wide who are supporting the key elements of the continuum for job commercialization, creation, and growth.

On February 16, over 120 representatives from the Coalition and their members came to Washington DC for a day of meetings. NASVF President Jim Jaffe and VP Richard Miller were present along with NASVF board members Rich Bendis and Brian Darmody (who also served as emcee).

The audience listened to presentations by Senator Mark Pryor (D-AR); Representative John Sarbanes (D-MD); John Fernandez, U.S. Assistant Secretary of Commerce for Economic Development; Phil Singerman, Associate Director for Innovation and Industry Services at NIST; Doug Rand, Office of

Science and Technology Policy (OSTP); Dan Berglund, President & CEO, State Science and Technology Institute (SSTI); Matthew Nemerson, President & CEO, Connecticut Technology Council.

Morning Sessions Included such Topics as...

- The proposed National Angel Tax Credit
- The impact of small business and the importance of innovation for sustainable job creation
- The new I6 and Regional Innovation Clusters initiative
- Budget impact in key agencies that Innovation Coalition members are engaged with and receive funding
- Startup America briefing

After morning sessions, the members went to Capitol Hill to meet with their respective congressional leaders and the day ended with a networking reception and dinner.

Best Practices

Bob McHugh

Manager, Capital Access

**Ben Franklin Technology
Partners**

Tough love for Tech Start-Ups

The Ben Franklin Technology Partners of Northeastern Pennsylvania is an early-stage investor in a wide range of technology-based companies. Our clients are often cash poor, have holes in their management teams, and, since they are pre-revenue, don't yet have a great story to tell other investors. They tend to be very intelligent technical people with corporate or academic experience, but limited experience leading a start-up company.

The first meeting between an entrepreneur and an investor is when the due diligence process begins. Each side enters with different goals, and the interaction is often a delicate dance. The entrepreneur is trying to present as strong a story as possible, which means focusing on the positives and deflecting attention from the negatives. The investor is trying to get to the real story as quickly as possible. And everybody realizes that the investor has veto power over the next steps.

The standard due diligence questions are available from many sources, such as the Angel Capital Association so I won't discuss them here. Instead I will address some of the approaches that I have developed to learn more about the founding teams of early-stage companies. In addition, I will provide some sample questions that admittedly and deliberately have hidden agendas. Interpreting the answers is beyond the scope of this article, and requires a substantial amount of intuition, gained largely through experience.

Let me start by making a statement about my expectations for a founding team. I have been screening early-stage deals for Ben Franklin for more than ten years, and I have not yet seen a perfect initial team. I have met some that try to portray themselves as the

perfect team, but this strategy almost never works. While the team might be the weak link that causes us to pass on an investment, more often we are interested in investing, so we are trying to analyze the team to determine where we can be of most help.

My role in the due diligence process begins when a prospective client comes to Ben Franklin for a 90-minute initial meeting with our portfolio team. Prior to this meeting, one of our enterprise developers has met with and pre-approved the company. At the portfolio presentation, I seek to gain insights into the entrepreneur's capability to execute in a start-up environment with limited resources.

My first concern is what kind of first impression the entrepreneur presents. I consider my "take" in the first minute, and again at the end of the meeting. I am trying to determine if the entrepreneur can sell. Why? Entrepreneurs have to "sell" their company to potential customers, employees, investors, strategic partners, vendors, landlords and many others. If my impressions are not positive, the next question is whether they can be improved. If not, it is a major concern.

The second concern is, does the entrepreneur acknowledge the team's shortcomings. Is he/she honest and self-aware? If the team won't acknowledge their weaknesses, we will not only have to address their weaknesses, but first we will have to convince them that they exist. Two related questions help to elicit an honest answer. "As a founder you have to wear many hats – CEO, CFO, CTO, CMO, salesperson – which one of these fits you best? Where do you need the most help? Unless the entrepreneur can convince me that he/she is coachable, not acknowledging a weakness can be a deal breaker. Be wary of the engineer who thinks he/she can handle marketing and the Ph.D. who thinks he/she is a CFO.

A related concern is whether the founder can build a team that can grow the company to \$10 million in

annual revenue. Teams of convenience (family, neighbors, friends) are dangerous because not only can they be non-performers, but they are very difficult to remove. I like to ask, "How did the team come together?" I have uncovered many "significant others" with different last names this way. And while Ben Franklin might be willing to accept a highly qualified husband-wife team, a venture capital follow-on round would be nearly impossible.

An important characteristic of successful entrepreneurs is how they accept rejection, because they will face a lot of rejection as they grow their companies. The first round of rejection usually comes from investors, and unless they can close 100% of sales calls, customer rejections will be frequent as well. Rejections are unavoidable, but they should be viewed as learning experiences. The reaction to rejection can divide entrepreneurs into two groups. Entrepreneurs with an internal focus of control look to their own actions for improvement. Entrepreneurs with an external focus of control tend to blame others or outside forces for failure. Obviously, I prefer those with the internal focus of control because they have a better chance of taking corrective action. While this can be a difficult characteristic to ascertain in an entrepreneur, there are a few questions that can provide hints. "Why did you leave a particular job?", "Why do you think that investor passed on your company?", "Could you have made a better sales pitch?".

Our typical client is severely resource-constrained, particularly in terms of cash and people. As investors, we want to avoid companies with inadequate leadership teams, but, more importantly, we want to strongly support the teams that we invest in. To maximize our efforts, we want to fully understand clients' weaknesses so that we can start to help right away. We don't have the time and money to waste a year or so only to uncover problems. And neither do our clients.

Committee Descriptions

Membership

Recommends long-term strategic membership goals and benefits. It works together with management to retain and recruit members.

Advocacy

Recommends long-term strategic policy goals to the BOD working closely with the NASVF management team.

Conference

Recommends, selects, and develops conference sessions and overall program content for the annual event.

Strategic Planning

Develops and strategizes with NASVF management and board of directors the overall goals and mission strategies for the organization.

Communications

Aids NASVF management with developing new and effective modes and strategies for communication and membership outreach through NetNews, website and other publicity vehicles.

Federal Programs

Develops and recommends strategies to work effectively with Federal Labs, grant and program initiatives.

Committee Minutes

All of the meeting minutes are available on the NASVF website. Log in to the Member Only area with your email address and the password: nasvfweb.

To join a committee, contact: Kelly O'Day at Kelly@nasvf.org or 207-653-7648

NASVF COMMITTEE UPDATES!

Membership

A retention and recruitment plan is in place for 2011 with a goal of membership in all 50 states. New benefits are in the works! We are developing a regional ecosystem for members to network with each other. We are also creating another new benefit to assist our members with syndicating deals. This committee is looking at additional opportunities to provide members with additional interaction and forums for collaboration. Suggestions are always welcome.

Advocacy

The national angel tax credit program continues to receive attention from this committee. There are pros and cons to the proposed income tax capital gains approach vs. the tax credit approach. Both will be reviewed and discussed so that NASVF may represent its membership properly. R&D Tax credit reauthorization is an issue which we is being considered for additional attention from this committee. Jim Jaffe distributed a paper to NASVF Members from Clara Asmail, NIST, describing her creative approach to using SBIR grant funding to partially fuel and fund investments in businesses. This was distributed on Jan. 28, contact Kelly@nasvf.org for a copy. SBIR update: the program receiving a 4 month extension. There is also a need for NASVF members to help educate the new House representatives about the SBIR program.

Conference

This committee is up and running working on the 2011 program! Suggestions for speakers and sessions are streaming in and the committee will begin to review these and start putting panels together. We're adding more networking opportunities and round table discussions to the schedule. Registration will open Monday, April 4.

Communications

The first meeting held in February was productive providing feedback to our management team about website enhancements. Coming soon: Members' newsletter/RSS feeds on the website. Also being discussed: social media, member outreach, and Member Quarterly newsletter improvements. NetNews is being improved with the addition of photos and videos. We're looking forward to the new NetNews TechConnect section and Best Practices Editorials shared by our members.

Federal Programs

This committee is newly formed and will serve as a representation of the membership to figure out the benefit in this area of federal programs and what we can bring back to the organization as action items and deliverables. Looking to provide federal lab vetted technologies to the membership. Suggestion to create a 3-month pilot program where NASVF posts a list of technologies, review the level of investment and see if this is a worthwhile benefit. Need to get a list of NSF and Army technologies out to NASVF members that are vetted by the labs. NASVF in February held a training course taught by members. More information is available on the NASVF website. There's an interest for NASVF to host a ½ day conference for federal lab TTO's and for NASVF to work closely with the FLC to develop a program to work closely with VCs.

Strategic Planning

This committee develops and manages the strategic process and measures the progress of the 5 committees. It will serve as an over-arching group to be sure the committees' tactics and strategies are on track with the mission and strategies of NASVF.

NEW NASVF MEMBER!

***Please join us in welcoming our newest members. Reach out to those in your region!
You will find more information about these companies on the NASVF website.***

**Cottonwood Technology Fund (CTF). www.cottonwoodtechnologyfund.com
Ebetuel Pallares. beto@cottonwoodtechnologyfund.com**

CTF is an early-stage technology commercialization fund with offices in El Paso, Texas, Los Alamos, New Mexico, and Santa Fe, New Mexico. It aims to cultivate the entrepreneurial community of the Paso del Norte region running along the Rio Grande River from Los Alamos, New Mexico to El Paso, Texas. It is an area rich in resources, host to two federal labs (Los Alamos and Sandia), two medical centers (the University of New Mexico Health Services Center and the Texas Tech University Health Services Center at El Paso), and four engineering schools and research universities (UNM, UTEP, NM Tech and NM State). Collectively, they represent more than \$4.0 billion in annual research across critical fields such as Bio-Sciences, New Energy, Nanotechnology, Information Technologies, CleanTech and Aerospace. CTF will work to provide venture services and capital to tech transfer opportunities having strong commercial potential. We borrowed our name from a tree native to the region. The Rio Grande Cottonwood—a welcome sight to pioneer desert caravans because it often signaled water—typically reaches 50 to 60 feet in height and can produce as many as 25 million seeds in a season. CTF aims to be as fruitful with its work.

A Highlight of Member Benefits:

- Networking opportunities to share best practices, deal flow/syndication, and more
- Participation in NASVF committees that impact the organization. Consult with your colleagues to help steer future action: policy, conference, strategic planning, membership, communications and federal programs
- Complimentary AngelSoft software
- Discount to the NASVF annual conference October 17-19, 2011 and a discounted membership renewal price with your conference registration
- Complimentary NetNews weekly E-Publication
- Discounts to advertise in NetNews at 50% off the current advertising rates
- Job postings: free job postings in NetNews
- Discounted subscription to use BaseCamp Calendar System
- Free promotion of your events in the BaseCamp Calendar via NASVF website and NetNews
- Discounted IT Services with Delmarva Group (NASVF and Innovation America endorsed!)
- Discounts, invitations and access to industry partners' events
- Educational opportunities to teach and learn through NASVF's newly created webinars. Cooperation with NCET2