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ENTREPRENEURIAL EDGE

A Pool of Ready Capital With Entrepreneurs in Mind

By JAMES FLANIGAN

Corporate chief executives may have been the heroes of American business in bygone decades, but these days the entrepreneur is king — or queen. Praised for creating most of the jobs and much of the innovation in the American economy, those who start small businesses are now receiving big money from individual investors in a form called angel capital.

In the early stage of a company's financial life, after friends and family have been tapped for an initial stake, comes angel capital — a name derived from the “angels” who back Broadway plays. Small-company angels are individual investors, often successful entrepreneurs themselves, who back newcomers starting out as they once did, on a smile and a shoeshine.

Last year such individuals invested \$5 billion in 1,176 small companies, according to Luis Villalobos, founder of [Tech Coast Angels](#) in Orange County, Calif.

It is one of about a hundred angel capital groups in the United States, a movement inspired by [Band of Angels](#), the first formal angel group of a dozen Silicon Valley entrepreneurs gathered together by the late Hans Severiens, a nuclear physicist and investor, to listen to aspiring entrepreneurs and possibly take a flyer on their dreams. The Band, membership swollen to more than 100 and having backed household names like [Cisco Systems](#) and [Genentech](#), still meets once a month to examine prospects.

It was advice from Mr. Severiens that encouraged Mr. Villalobos, an engineer and two-time successful entrepreneur, to persevere in forming Tech Coast Angels in 1997. At the time, he recalled, local business colleagues told him: “You're crazy. There's no venture investors or technology or entrepreneurs, other than maybe in real estate, in Orange County.” Yet in 10 years, Tech Coast Angels has grown to 270 members who have invested \$85 million in 128 companies.

It's a sign of how attitudes toward risk have changed in little more than a decade that seasoned executives and financial managers now readily join groups to put \$200,000 to \$1 million behind people with ideas and a sense of adventure. And the track record on angel investing has been very good.

“Angel investors typically earn 5 to 10 times their money in four to eight years,” said Mr. Villalobos, citing a [PricewaterhouseCoopers Money Tree](#) study of venture capital.

But the spread of angel investing attests also to the economy's encouragement of innovation, whether in high technology or humble everyday products. For example, [Pasadena Angels](#), a seven-year-old group, backed MediaDefender, a company that developed antipiracy software to combat illegal file-sharing of copyrighted music. “It's a company that shows the good things we do. It helps the movie industry protect its products from Web

piracy,” said Nicholas Stonnington, a member of Pasadena Angels.

“And it had a great exit,” Mr. Stonnington adds, referring to the 2005 acquisition of MediaDefender for \$42.5 million by the [Artist Direct Corporation](#).

The Los Angeles chapter of Tech Coast Angels backed the [Green Dot Corporation](#), which introduced a prepaid credit card. “The thinking was that the cards would be used by immigrants who didn’t have access to bank credit,” said Richard Morganstern, president of the Los Angeles angel network. But instead the market is primarily parents of college students who hand their offspring a \$1,000 card and say, ‘Call me when it’s used up.’ ”

Angel capital is not easily handed out. Gerrie Adams, co-founder of [Xengaru Fun Foods of Laguna Niguel](#), in Orange County, tells of competing in the Tech Coast Angels Fast Pitch Competition in which prospects have 60 seconds to make an impression on venture capital companies — the investors of pension and mutual fund money that are the next stage after angel capital.

Ms. Adams and her business partner, Anuradha Prakash, had gained angel backing and even National Space and Aeronautics Administration recognition for the low-cholesterol and fat content of their Pizzettos pizza chips. But in 2005 Xengaru faced a need for more capital to expand into a national commercial corporation. Ms. Adams recalled standing in a hotel ballroom facing 300 professional investors.

“I was terrified,” she said. “I had 59 seconds to get my point across.” So Ms. Adams, a former sales and marketing manager, opened her pitch with alarming statistics about childhood obesity, noted that state governments were already banning unhealthy snacks, and then related quickly that schools loved Xengaru’s low-fat pizza chips because they were healthy and children loved them because of the taste. She won the right to a potential \$500,000 in expansion capital for Xengaru.

Angel groups now are so large that they hold conventions. Tech Coast Angels and the [Harvard Business School Alumni Association of Orange County](#) will hold an entrepreneurs conference in Anaheim on May 14. And the [Keiretsu Forum](#), an angel network boasting 500 members, recently held a convention in San Francisco.

The next stage for angel capital? Not surprisingly, it’s globalization. Keiretsu Forum, which has chapters extending from Lafayette, Calif., east of San Francisco, to Denver, Boise, Seattle and other American cities has opened a chapter in Beijing, said Randy Williams, who started Keiretsu seven years ago. (The name derives from the Japanese word for companies linked by cross ownership of shares). There appears to be a receptive audience for entrepreneurship in China. “We have been in Beijing for nine months, and we will open next in Shanghai,” Mr. Williams said.

Kevin Scanlon, a member of the Los Angeles chapter of Tech Coast Angels, returned recently from China, where government officials and businesspeople “were eager to learn how angel capital works and how we put our groups together,” Mr. Scanlon said. “The angel capital idea could be our next great export.”

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Entrepreneurship and innovation as a hallmark and hope of the American economy certainly was a major theme at the [Milken Institute’s Global Conference](#), which ran from April 22 to 25 in Beverly Hills. This year’s conference, convened by [Michael R. Milken](#)’s Santa Monica-based research group, had 3,000 attendees to listen to 470

speakers and 128 panel sessions discuss ways to spur innovation in business, medicine and education. The solution suggested in every case was entrepreneurial verve and access to capital.

At one panel, called Making Entrepreneurship Global, Carl J. Schramm, the president of the [Ewing Marion Kauffman Foundation of Entrepreneurship](#), declared that the American economy was strong because “we have left behind the bureaucratic capitalism” of big companies and reliance on beliefs in central industrial planning “and entered the era of entrepreneurial capitalism,” of small to medium-size companies, which create more than half the new jobs and most of the economy’s innovative products and processes.

On the same panel, Umair A. Khan, a founder of many companies, including [Folio3](#), which develops software for small companies, and [OPEN](#), the Organization of Pakistani Entrepreneurs of North America, pointed out that Internet sites for communications and children’s education and practically any other purpose are now attracting millions of people everywhere.

“There are great liquidity options all over the world,” Mr. Khan said. “Everybody needs everything in the developing world.”

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