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Tri-State Venture Capital Survey
"Where the Money is at"

I got 2 business plans and a microphone . . .



Hudson Ventures



New York, New Jersey and Connecticut

Where is the Venture Capital Market Going?

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Tri-State Venture Capital Survey

According to FundingPost's recent survey of the Tri-State area's (New York, New Jersey and Connecticut) leading Venture Capital Funds – **dealflow is up, the outlook is better and the money will continue flowing to the "right" companies.**

The FundingPost report profiles responses from leading VC firms, including **Edison Venture Fund, Pennell Venture Partners, JEGI Capital, Dolphin Equity, Cardinal Partners, Topspin Partners, BEV Capital and Hudson Ventures.**

The Survey Focuses on:

Have you noticed an increase in dealflow?

What industries are hot?

Where is the venture market going?

What makes the New York area unique to invest in?

What are your current revenue requirements for new investments?

So when will I get my check? (Good question!) It takes dedication, perseverance, and patience (we mentioned patience – right?). It also takes big ideas and the belief that you can conquer the world. If you do not truly believe that *you will win* – nobody will invest in *you*. That being said, you also need one more critical ingredient – **customers** (i.e., revenue). Investors are continuing to look at post-revenue companies. Why? 1) The fact that someone paid for your product / service validates it. 2) It reduces the risk – which is the theme of the market today.

Where is the market going?

Up. Yes, we believe that things are getting a bit better each day. In fact, we are counting on it – we are proud to announce that FundingPost is currently organizing events in 7 major cities nationwide. We have seen a *tremendous increase in dealflow requests from investors nationwide*, which we believe is a good sign.

About FundingPost:

For almost 3 years FundingPost has been bringing together CEOs, leading investors and entrepreneurs through our successful Venture Capital Events, online Venture Capital Exchange, and in print through our Venture Guide Magazine. Over the past year our sold-out events have had an attendance of over 1,700 executives.

Learn about reaching the Top Venture Funds in Print:

www.FundingPost.com/book

BEV Capital**www.bevcapital.com****Have you noticed an increase in dealflow?**

Dealflow is picking up this month. We have seen a sudden rise in Deals and an improvement in dealflow. One reason is that companies doing OK have achieved enough traction to go out and seek funding at this time.

What makes the New York area unique to invest in?

The tri-state area is a huge market - from New Jersey, we see healthcare and consumer deals, from Manhattan we see tech deals, media and financials services and from Connecticut we see marketing deals (although lots of biotech is in CT, too). This is a big market - lots of entrepreneurs and lots of VCs.

Where is the venture market going?

I think the second half of 2003 will be an upswing, and 2004 will be a brighter year. I think we are coming out of this 3-year lull.

INVESTMENT FOCUS

We have a broad industry focus which includes software, the consumer sector and business services. Each partner has unique areas of expertise, so we can bring in-depth market knowledge to bear on each of these sectors. On a deal-by-deal basis, we will consider opportunities outside of these industries.

Our preference is for expansion-stage investments with proof of concept, but we will opportunistically consider start-ups, recapitalizations and buyout opportunities.

BEV initially invests \$1 million to \$5 million in a company and keeps at least that same amount in reserve against future financing needs. Past investments have been as small as \$1 million and as large as \$10 million.

We have served as the lead investor in about half of our financings; however, we are comfortable functioning in either a lead or participatory role. BEV always invests together with a syndicate of other venture firms; over the years, BEV partners have co-invested with 100+ other venture firms.

BEV Capital is exhibiting at the FundingPost VC Showcase (10/21)

Topspin Partners**www.topspinpartners.com****What are your current revenue requirements for new investments?**

Revenue requirements have not changed appreciably over the last 12 months - but have put more emphasis on the quality of the prospective revenue stream. We have continued to look at early-stage investments over the past 12 months with the belief that well-funded ideas in this economy may face lower levels of competition given that so many potential competitors have run out of cash and disappeared from the playing field.

What makes the New York area unique to invest in?

Need to be opportunistic in the variety of industries that you look at. Wide variety of industries represented in the tri-state area - lacking our own Silicon Valley or concentration of technology expertise, you must cast a wider net.

Where is the venture market going?

Funds will continue to look for and invest in later-stage deals with early-stage valuations as valuations continue to lag the public sector. Funds will also look to consolidate industries into current platform businesses, taking advantage of the carnage of the past 18 months.

Topspin Partners is a venture capital and private equity investment firm formed in August of 2000. Topspin is currently investing out of a \$215 million fund that was closed in the Fall of 2000. Topspin is the successor fund to the Long Island Venture Fund, a successful venture capital fund that began investing in 1995. The firm is an affiliate of Renaissance Technologies, a well-known manager of liquid assets. Funds under management by Renaissance include the Medallion Fund and Meritage Fund.

Investment Criteria

In the context of a venture capital investment, we will invest \$1-15 million per transaction in one or more rounds. Our investment criteria are as follows:

- Outstanding and experienced management team, both executive & technical
- Very large addressable market for the product or service contemplated
- Proof of concept completed and marked reduction in technical risk
- Seed investments are rarely of interest

Topspin Partners is exhibiting at the FundingPost VC Showcase (10/21)

Cardinal Partners**cardinalpartners****www.cardinalpartners.com****Have you noticed an increase in dealflow?**

Venture capital portfolio companies faced a "perfect storm" of challenges since the peak of the dot-com boom in 2000: Customers battling recession which slowed sales, a depressed public market dampening exit options, and over-funded competitors which complicate everything from sales cycles to employee recruitment. Venture Funds have been heads-down managing existing investments, with an attendant decline in new deal activity. In '03, many of these issues are resolved, with the result that, yes, funds are seeking new deals with increased appetite.

What industries are hot?

As healthcare investors, we are very enthused about novel devices in orthopedic and spine, as well as cardiovascular therapeutics. We continue to be interested in innovative healthcare service companies, especially those which contribute toward the trend of patient-consumer empowerment. Healthcare software and information systems is a sector that has languished in recent years, yet we remain optimistic for the longer term. Life sciences sectors have always been important at Cardinal on a selective basis.

What are your current revenue requirements for new investments?

Cardinal remains a resolute early-stage investor, and frequently invests in pre-revenue companies, especially in the medical product/device or life science spaces. We generally prefer that healthcare services or IT companies have achieved revenue levels of \$2-5M, although we have and will continue to fund these projects at the earliest stages.

Cardinal Partners is a leading early-stage venture capital firm that seeks investment opportunities across the healthcare sector, including healthcare IT, medical technology, services and life sciences. Cardinal is committed to the belief that innovation and excellence in healthcare will simultaneously improve the lives of millions, while rewarding our investors with extraordinary returns. Our management team leverages their decades of experience to nurture today's enterprises into tomorrow's industry leaders. They guide companies to their full potential through an inventory of network contacts, management team-building expertise and strategic planning.

The firm currently has a total of \$180 million under management. Cardinal Partners invests between \$4 - \$8 million per company.

Dolphin Equity**www.dolphinequity.com****What industries are hot?**

Mobile technologies: applications, security. Fixed wireless service providers looking for a roll-up. Telecom expense management services. E-commerce survivors are interesting.

What are your current revenue requirements for new investments?

We are seeing more high-quality later-stage deals at good values. We are not doing any deals with less than \$1 million in run-rate revenues.

Where is the venture market going?

I believe there is still an under layer of under-performing companies in sectors that were over funded. However, management lacks incentives to make consolidation happen. I believe that investors will have to force consolidation to free up resources to do the next wave of deals. In summary, I'd call it investor-driven consolidation in over-funded sectors.

Dolphin Equity Partners specializes in investments in emerging communications and related information technology companies operating in the U.S. and abroad. Located in New York, Dolphin currently manages over \$340 million in capital. Dolphin seeks to obtain significant equity positions in expansion-stage companies with the potential for substantial growth in communications technologies, software and services. We are shaping the future of communications through highly-selective investing, and through the strategic direction we provide to the management of our portfolio companies.

Once targeted companies have been identified, we continue to evaluate and assess the investment opportunity. Dolphin's deal team is balanced by a review team, which acts as its counterpoint, questioning assumptions and addressing the major risks inherent in each potential investment. Each year we review over 500 deals, approximately 10 of which undergo extensive due diligence, and only three or four are ultimately selected for portfolio investment. Finally, using the enormity and breadth of the communications industry to our advantage, we look to diversify our holdings and mitigate risk across business stages and sub-sectors, in accordance with our portfolio strategy.

JEGI Capital**www.jegi.com****Have you noticed an increase in dealflow?**

Our dealflow reflects a new mix of higher-quality companies seeking funding. Many of these have moved well into the commercialization stage with a growing customer base comprised of success stories and quarter-over-quarter revenue growth. Additionally, entrepreneurs are beginning to realize that it takes time and energy for their visions to become realities. There are few "instant" successes, if any. This bac-to-basics approach is very encouraging for all.

What industries are hot?

Data management + integration; Digital marketing and media; Application software - especially if it addresses a real pain point in the market; Security; Wireless; and RFID.

What makes the New York area unique to invest in?

Access to the customer is key -- be it the financial services, media, marketing or pharmaceutical industries. The fact that you can step outside your office to meet with prospects and customers is crucially important.

JEGI Capital's first fund was founded on the core belief that emerging technologies are changing the nature of communications as it pertains to both the traditional media industry and the general business enterprise. In line with this philosophy, the fund's investment focus is exclusively on enabling technologies, infrastructure and support services companies that advance the role of communications, both within and beyond the enterprise. We look for companies that will help aid in the processes of information control, capture, analysis and dissemination. Particular emphasis is placed on technologies with potential impact on the media and marketing communications industries. These technologies will help businesses operate more effectively, reach more customers, create closer links with existing customers, or create new distribution channels. JEGI firmly believes that in the new millennium competitive advantage will be achieved by those who embrace these technologies that evolve the nature of business communications.

JEGI Capital is exhibiting at the FundingPost VC Showcase (10/21)

Hudson Ventures**www.hudsonventures.com****Have you noticed an increase in dealflow?**

Venture funds which still have funds to invest continue to seek new deals, although many have raised the bar in terms of what companies they are willing to look at - e.g., more revenues, stronger management, better customer list.

What makes the New York area unique to invest in?

Investments in the tri-state area historically have focused on three industries: financial services, telecommunications, and biotech. During the past several years, financial services and telecom industries have suffered significantly, and have pulled with them investments in related technology companies. However, financial services companies are beginning to buy technology again, giving us reason for cautious optimism as investors.

Where is the venture market going?

It's difficult to predict what will happen within the venture industry because the economic recovery continues to be slow. There is a sense of more optimism, as compared with this time last year. Companies with unique products, revenues, strong management and good customer lists will continue to be successful in raising capital, and may see somewhat higher valuations if the sense of economic optimism persists or improves.

Expertise

What distinguishes Hudson Ventures from other venture capitalists is our team's experience. We do more than provide capital and a network of personnel and business contacts to our portfolio companies. Our team has decades of demonstrated expertise in operating and growing companies, and has successfully managed every phase of a company's life cycle including concept development, dramatic expansion, public offerings, mergers and acquisitions. As a result of this expertise, our relationships with our portfolio companies are noticeably different. For example, we involve ourselves with marketing, strategic development, orchestrating product launches, and identifying senior management candidates. In addition, our financial, analytical and legal expertise enables us to quickly structure and fund investments, which allows entrepreneurs to spend more time growing their businesses and less time raising capital. We encourage you to contact our companies to better understand what we offer.

Hudson Ventures is exhibiting at the FundingPost VC Showcase (10/21)

Pennell Venture Partners**www.pennell.com****Have you noticed an increase in dealflow?**

We have seen more venture funds actively looking for new dealflow. We, ourselves, are seeing marginally better deal quality this year versus prior years. Because being an entrepreneur is hard again, the opportunists have been purged and the opportunities that remain are credible.

What are your current revenue requirements for new investments?

Our revenue requirements are higher than they were in 2000, but may be lower than they were in 2002. There absolutely must be evidence of demand and customer willingness to buy a product/service before we would contemplate an investment. There may eventually be a shift towards earlier-stage investments as the market improves, but it is not happening yet.

What makes the New York area unique to invest in?

On the one hand, a local base of potential customers, the proximity of top-notch business resources and access to a workforce in the City of ambition are all positives. On the other hand, overhead in the New York area is high, both for companies and their employees. Overall, the positives outweigh the negatives.

Pennell Venture Partners (PVP) is an early-stage venture investor based in New York City formed to meet the need for professional early-stage risk capital in New York and help bridge the gap in the investor marketplace between angel investors and institutional venture capital funds.

PVP backs exceptional entrepreneurs who demonstrate the ability, creativity and drive necessary to develop leading companies.

PVP seeks out opportunities and entrepreneurs with the vision to identify real world business problems and develop a "cure". We view uncovering a pragmatic and compelling business solution like finding a needle in a haystack.

Pennell is exhibiting at the FundingPost VC Showcase (10/21)

Edison Venture Fund**www.edisonventure.com****What industries are hot?**

Edison is interested in emerging IT market niches. Vertical sectors of particular interest to Edison include Pharmaceutical/IT, Financial Services, eCommerce, Logistics applications.

What makes the New York area unique to invest in?

The number of Fortune 1000 companies with headquarters located in the tri-state area makes it an ideal location for start-ups selling to the enterprise. The density of financial services, pharmaceutical and media industry leaders makes the area an attractive location.

Where is the venture market going?

VCs that were on the sideline are coming back in the market. Some congestion, more syndicated deals. Fewer pre-revenue investments, higher revenue thresholds for comfort. Deals take longer to get done as VC s watch companies longer. Less pressure to move quickly to gain more market share. More patience as time is needed to build value and successful exits.

Edison seeks opportunities where our skills, experience and relationships will contribute meaningfully to a company's success. Our Investment Professionals become trusted and valued partners to entrepreneurs. Building successful growth companies and creating substantial equity value are Edison's two goals. Our funding profile includes growth, management buyouts, acquisitions, and secondary stock purchases.

Edison focuses on expansion-stage information technology companies with major operations in the New York City to Virginia corridor.

Specializing in one field provides us with insight into emerging technologies. In addition, we introduce strategic partners, customers and specialized consultants.

Edison invests in businesses located within several hours' travel time of our New Jersey, Pennsylvania and Virginia offices. Our Investment Professionals are readily accessible to Edison portfolio companies.

Our initial investment ranges from \$3 to 5 million. When a company requires additional capital, Edison organizes a syndicate among prominent venture capital firms, financial institutions, and major corporations.

Edison Venture Fund is exhibiting at the FundingPost VC Showcase (10/21)

FundingPost Venture Guide Magazine

FundingPost.com is currently producing its Q1 2004 Venture Guide. This unique publication will be mailed to over 300 leading Venture Capital firms in the United States.

How to get involved:

Entrepreneurs Raising Capital

You can list your company profile in either a quarter-page or a full-page executive summary. This profile contains your contact information, company description, amount of capital sought:



www.FundingPost.com/book

Service Providers

Reach New Clients

Impact:

The Second Venture Network reaches principal level (CXO) management at emerging companies at the most important time in the company life cycle, when decisions on service providers and partners are made.

- **49%** of the network have stated they need a law firm now or in the near future.
- **32%** of the network have stated they need an accounting firm / accounting assistance now.
- **47%** of our companies have more than 5 employees.
- **53%** of our companies have products launched that are generating revenue consistent with the emerging company goals of our network and its partners.

The best time to build long-term and profitable relationships with new clients is early in their life cycle –

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