

Inside the VC trenches

Expo offering insight for entrepreneurs

BY TOM LOCKE
DENVER BUSINESS JOURNAL

Fast food will never be the same, at least if venture capitalist Jack Tankersley is betting correctly.

Here's the scenario. You pull up in your car, order a burger and fries, and a disembodied voice asks if you want a drink, too. Oh, yeah. Sure. And what about taking advantage of the new special on hot apple pies? I shouldn't, but OK.

The trick is this: The voice is not emanating from a person inside the building with the food. Instead, it's coming from hundreds, perhaps thousands, of miles away where a trained professional, skilled in getting you to increase your order, is speaking from a call center.

The order goes back to the restaurant with a picture of you and your car. It's all made possible through a technology called **voice over IP (Internet protocol)**, which uses the Internet for communication.

Tankersley, a founder of **Meritage Private Equity Funds**, said the process produces cheaper and faster service with fewer mistakes and bigger **Tankersley orders. Meritage, Colorado's second-largest venture capital firm**, likes that concept and other similar ones to such an extent that it has **invested \$35 million** in Dallas-based network service provider **Masergy Communications Inc.**

With increasing use of broadband technology such as DSL and cable TV modems, the potential of the Internet is increasingly being realized, and Internet content and **technology such as voice over IP are a main area of focus** for Meritage, said Stephanie Smeltzer, vice president at Meritage. Its other big focus is on WiFi, a short-range, wireless technology that is increasing the portability of Internet access.

Both Tankersley and Smeltzer will be participating in the Rockies Venture Club Fall Finance Expo on Nov. 11 in Denver. And no doubt, they'll air some of their views on the venture capital environment.

The good news is this: "We are seeing venture capitalists starting to look at new opportunities," said Tankersley, **who also was a founder of Centennial Ventures**, Colorado's largest venture capital firm. That means new investments in companies, not just follow-on rounds, which have been typical for two or three years.

Venture capital is startup money typically invested in high-risk small companies in return for an ownership interest in the company.

It is raised from entities such as pension funds, endowments, banks, insurance companies and sometimes very wealthy individuals.

Tankersley explained that in the go-go days of the late 1990s, venture capitalists got overextended and invested in too many companies per venture capitalist. They usually are very involved in the companies they invest in, serving on boards and providing expertise, and problem solving can be time-intensive.

When the stock market and economy turned sour, Venture capitalists simply had too many troubled companies to handle and couldn't keep up.

Fortunately, Meritage started taking a more conservative approach with its investments before things tanked, Tankersley said, but many venture capitalist

companies had their investments fizzle as companies in their portfolios went out of business.

Meritage helped the companies in its portfolio survive through a number of strategies designed to cope with tough times. The strategies can include cut-backs in employees and programs, redirecting projects to today's markets rather than tomorrow's markets, producing something less costly for the market, **combining with a larger company, and restructuring debt to vendors and banks.**

Debt restructuring with banks included the threat of holding back any further venture capital investment unless banks provided some forgiveness of debt, conversion of debt to equity, or looser terms on debt.

"Forgiveness [of debt] is No. 1 on the list," Smeltzer said.



Smeltzer

Tankersley said many banks sold back their loans for a nickel or dime on the dollar because they were eager to get the bad loans off their books. "I don't think anybody [among the banks] got a quarter on the dollar," he said.

But those times are done. "The restructuring got completed. The VC triage is over," Tankersley said. "As a result, they're looking at new deals."

But valuations of companies looking for investments is now lower and deals will be slower. That's because of more due diligence, more caution in limiting the number of companies invested in, and a back-to-basics approach by more venture capitalists, Tankersley said.

He also cautions against putting too much emphasis on quarterly numbers on venture capital investments in Colorado. He noted that the numbers can be skewed by a single deal.

Plus, figures vary according to what deals are counted and in what quarters they're counted. A deal may close in one quarter and not be announced until the next quarter, for instance.

In the third quarter in Colorado, Capital Hunter Inc. counted \$110 million in eight deals; PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association counted \$130 million in 16 deals; Ernst & Young counted \$116.3 million in nine deals; and Growththink Research counted \$107.4 million in nine deals.

At the conference, Smeltzer will talk about competitive advantage while Tankersley will moderate a panel including Denver Mayor John Hickenlooper; Art Zeile, CEO of data center company Inflow Inc.; and venture capitalist Jim Conboy, after those three deliver keynote addresses.

"I think the entrepreneurial community is pretty excited to have a mayor who is an entrepreneur," Tankersley said. "There's a lot of buzz because the mayor's going to be speaking."

Because Hickenlooper has successfully established and run restaurant businesses, entrepreneurs consider him one of their own and think he'll have a good understanding of the impacts of taxes and regulation on businesses.

Indeed, Tankersley said the mayor and Colorado Gov. Bill Owens have an opportunity to attract entrepreneurs from high-tax states such as Massachusetts, Minnesota and California.



Tankersley



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ATTENTION RVC MEMBERS AND FRIENDS:
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Low-tech

Restructuring firms

Established, closely held companies
Public companies

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Accountants
Attorneys
Consultants

The Rockies Venture Club has infused new energy into the 10th anniversary of its headline venture event. Renamed the Fall Finance Expo, it's completely focused on unlocking ideas to energize your business and our economy. Featuring Denver Mayor John Hickenlooper and a host of experts, the Expo is a must for small and medium sized businesses looking to power their business forward. It all happens Tuesday, November 11, 2003; so register today!

■ **Dinner & Program: The Big Picture.** This dynamic panel presentation will take a hard and visionary look at what is happening and needs to happen to energize our economy. The panel features Denver Mayor John Hickenlooper, who will also be honored with the coveted Duane Pearsall award.

■ **Workshops: Practical Knowledge.** The day in and day out insight to move your business forward. Tap into a full day's worth of detailed discussions and advice from experts in finance, sales and marketing. This is the hard-hitting facts about funding and growing your business.

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■ **Finance Track -- Creative Alternative Financing Techniques /Guerilla Financing**
Presenters Jim Arkebauer, President, Venture Associates
Greg Glissmann, Vice President, Wells Fargo Business Credit
Art Harrison, President, Arthur Harrison & Co.

■ **Sales and Marketing Track -- How to Find and Leverage Your Competitive Advantage?**
Speaker Stephanie Smeltzer, Vice President, Meritage Private Equity Funds

1:45 – 2:45 CONCURRENT SEMINARS

■ **Finance Track -- Exploring Partnering via Strategic Relationships**
Moderator Theresa Mehringer, Burns Figa & Will, P.C.
Panelists David Fletcher, President, Tuscany Design Automation, Inc.
Shannon Hogan, COO, Road 9, Inc.

■ **Sales and Marketing Track -- Creating Sustainable Value Through Effective Positioning**
Moderator Karla W. Trippe, Managing Partner, Trippe-Marino, Inc
Panelists Deborah Beckman, President, Spirit West Marketing
Bob Wolper, President, The Wolper Group
David Walton, Vice President, Fountainhead Communications

3:00 – 4:00 CONCURRENT SEMINARS

■ **Finance Track (VC Panel) -- Growth Strategies: Portfolio Case Study from Inside Mobius**
Speaker Seth Levine, Associate Partner, Mobius Venture Capital (Invited)
■ **Sales and Marketing Track -- Identifying and Building Effective Channels**
Speaker Kerry Brock, Vice President of Marketing, Exabyte Corporation

3:00 – 5:00 EXHIBITS (Open to the Public)

5:00 – 6:00 EXHIBITS (Open to meeting attendees)

■ Cash Bar, Dinner Registration, Networking

6:00 DINNER / DUANE PEARSALL ENTREPRENEURIAL AWARD / KEYNOTE PANEL

■ Energizing our Economy

Following dinner, the RVC will proudly present the Duane Pearsall Entrepreneurial Award to Denver Mayor John Hickenlooper, who will then join a powerful panel discussion of what the Mayor's office, the VC community and entrepreneurs can and will do to turn around our business economy.

Panelists Denver Mayor John Hickenlooper
Jim Conboy, Partner, Wolf Ventures; Chairman, CO Venture Capital Association
Art Zeile, Co-Founder & CEO, Inflow
Moderator Jack Tankersley, Co-Founder, Managing Director, Meritage Private Equity Funds

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