

Venturers still scarce

Funding for Sonoma County companies in '04 at lowest level in five years

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Venture capital funding, which helped launch numerous North Coast companies during the telecom boom and which remains a source of financing for the region's young companies, is still hard to come by five years after the technology bust.

Venture capital was responsible for launching such high-profile startups as Cerent in the late '90s. And money has continued to trickle into Sonoma County companies such as the Petaluma biotech Oculus Innovative Sciences and high-tech startup Triformix.

But in the first quarter of 2005, just two companies received investments and 2004 funding ended at the lowest level in five years, according to a report by research firm VentureOne.

There are broader signs, however, that venture capital flows are increasing.

Local investors say activity is increasing. And venture capitalists invested \$1.7 billion in Silicon Valley startups in the last three months of 2004, according to an industry survey.

Meanwhile, San Francisco recently was named the headquarters for the statewide stem cell research project approved last fall by voters. And the Bay Area remains the nation's center for venture capital investments.

The direction of the venture capital market will be the focus of a major conference in San Francisco this week. The International Business Forum conference will be held Wednesday through Friday at the Renaissance Stamford Court hotel on Nob Hill.

Analysts and executives receiving funding agree the market remains tight, with dollars hard to come by for all but the most promising of companies.

"There is a lot of money out there, but in the United States, it is still cautious as the IPO market is slow," explained Paul Zuber, chief executive officer of Dilithium Networks, the lone Sonoma County firm to receive funding in the first quarter.

Dilithium, which makes equipment that allows multimedia and video to run over advanced 3G wireless networks, moved its headquarters this year from Larkspur to Petaluma.



Art Bailey, left, and David Malloy, vice presidents of Dilithium in Petaluma, demonstrate their company's software that enables video calls from a cell phone to an Internet phone through the firm's multimedia gateway.

The company received \$18 million in funding from a variety of sources, including CM Capital Investments, DB Capital Partners, Infocomm Investments Ltd., JAFCO Investments Asia, Motorola Ventures and U.S. Venture Partners.

That money was forthcoming largely because the company has viable products that are in demand, Zuber wrote in an e-mail exchange from China, where he is traveling on business.

"We have won 100 customers in more than 40 countries and are growing rapidly, so there was strong interest in our company from European, Asia and U.S. investors," Zuber said. "We are also in the wireless space, which is one of the few bright spots in telecom."

The company plans to use the money to increase its sales force and for other general corporate purposes.

Venture capital firms, many of which suffered severely during the high-tech bust, are no longer content to see the companies they invest in grow, Zuber said.

"The interest from VCs is not on getting big as fast as possible, but on getting profitable and cash-flow positive," he said.

Nationwide, venture capital has been on a steady slide since 2000. That year, North Coast companies, defined by VentureOne as those located in the 707 area code, received a total of \$621 million. By the end of 2004, that number stood at \$158 million.

These figures do not include smaller investments made in local companies by groups such as North Bay Angels, a group of investors who have helped 35 startups since they began in 1998.

Herb Dwight, a member of the Angels, said that while venture capital fundings remain slow, the group is doing more deals than ever. In 2004, the group completed about half a dozen deals valued at between \$4 million and \$6 million, and he expects 2005 to be even stronger.

The company's investments are not included in VC reports because they are generally

small - between \$500,000 and \$1.5 million each - and the group does not report them, he said.

Nationwide, venture capital peaked at \$95 billion in 2000. It bottomed out at \$19 billion in 2003 before ticking up in 2004 to \$21 billion.

The first quarter of 2005 saw \$4.6 billion invested by venture capital firms, 16 percent less than the same quarter of 2004.

While information technology investments were down 9 percent over that period, within that segment, communications companies experienced a surge, with 26 more deals closing in the first quarter than in the fourth quarter of 2005, the report found.

"Investors seemed to be refocusing on new communications startups, with the most early stage deal activity in this segment in three years," said John Gabbert, vice president of worldwide research for VentureOne. "The majority of these new financings were centered around companies providing connectivity products and wireless solutions, indicating that investors still see opportunities in these segments."

Other bright spots included software companies, where investment was up 4 percent, and consumer and business services, which saw a 20-percent increase during the period. Health care and biopharmaceutical investments were down 39 and 50 percent, respectively, according to VentureOne.

Despite weakness in its sector, PRIS Medical Corp. of American Canyon managed to secure \$6 million in the quarter. The company makes portable water purification devices for the emergency medical market. The investment came from Growth Fund Private Equity Group.

"I don't see a lot of adventurous venture capital companies these days," said Mark Sizelove, president and chief executive officer of the 20-employee company.

Sizelove agrees that VC firms these days need to see the companies they fund have products either on the market or in the pipeline.

The company needs the money to help it make the transition from a research and development company to a commercial business, Sizelove said. It will be spent on upgrading the manufacturing process that creates the soda-can sized devices that can create both sterilized water for medical uses and purified drinking water.

The devices are approved by the FDA, and sales are on track to outpace other revenue – such as research grants from the Navy – for the first time this year, Sizelove said.

"I think the market is finally recognizing the gaps in pre-hospital medicine, so I think our timing and our technology are converging at the right times," Sizelove said.

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