

REGIONAL VCS

behemoth, but the words “Washington” and “technology” still conjure images of the Beltway Bandits: not young Internet entrepreneurs, but contractors who made their fortunes selling technology to the government in the '80s and early '90s.

FBR TVP, based in Reston, Virginia, just down the road from AOL, invests in early-stage companies that have products in the Internet, e-commerce, enterprise appli-

cations, and telecommunications—basically, the hot technologies in the greater Washington area (see “Venture Capitol,” page 103). The firm also looks ahead at what might be big in the region tomorrow. In June 1999, it invested \$4 million in Informax Data systems, which makes bioinformatics software that researchers use to help understand genetic functions.

FBR TVP, which has closed two funds totaling \$200 million, invests almost exclusively in companies in the Washington area because there's plenty of opportunity there. Over the last few years, the area has produced some impressive high-tech successes. Among those, FBR TVP has nurtured the XML server software maker WebMethods, which had the fourth-highest first-day percentage gain in history with its February IPO; the mobile-computing software company Riverbed Technologies, which sold to Aether Software in February in a deal worth \$800 million; and the online direct marketer LifeMinders.com, which went public last fall and had a follow-on offering in February.

The VC firm is the venture arm of Friedman Billings Ramsey, an investment bank. Few other VCs in the region have the firm's track record, in part because relatively few startups in the area have yet gone public. “FBR TVP has been very successful with such investments as WebMethods. They're one of the only local funds that has successfully taken a company public; other players are still looking for their marquee success stories,” says Patrick McQuown, president of Proteus, a self-funded Internet development firm in Washington. “However, this is as much as a commentary on the state of the market in D.C. as it is on FBR TVP's strengths and weaknesses.”

FBR TVP can't sit and wait for good business plans to find them. The directors admit that most beginning entrepreneurs don't think to look for money in their own backyards; they assume that Silicon Valley is the place to find it. FBR TVP sometimes has to wait for a local entrepreneur to come back from the West Coast empty-handed before the firm can get his or her attention.

“A lot of these entrepreneurs are wondering, ‘How do I interpret the interest that I'm getting on the West Coast?’ because it never quite leads to a term sheet,” Mr. Johnston says. “And then if we're really unlucky, one of the West Coast VCs will throw out a West Coast kind of valuation. So that

can put us in a hard position where we have to talk the entrepreneur down a little bit.”

Both FBR TVP directors have operational backgrounds. Mr. Riechers spent the last two decades working for area technology companies, including CyberCash, where he was the chief financial officer. Before joining the firm, Mr. Johnston was president of the Descartes Systems Group, a supply-chain software company in the

area. The firm's other venture capitalists, Scott Frederick and Harry Weller, bring the perspectives of an attorney and a consultant, respectively.

“They're four guys with different roles and personalities; they're like the Beatles,” says David Levine, cofounder and chairman of Dulles, Virginia-based Ultraprise, which runs an online secondary-market mortgage exchange and is an FBR TVP portfolio company. “When you take FBR money, you get all four of them.” But dealing with the firm's various personalities can have its downside—in Mr. Levine's case, it was nearly a schizophrenic experience (see “Board Games,” page 206).

When asked what they would do if they had more time, Mr. Johnston and Mr. Riechers quickly answer that they would help portfolio companies hammer out operations. That interest in slogging through day-to-day issues keeps FBR TVP looking to invest in companies at the earliest stage. Green entrepreneurs can benefit from VCs' operational experience. And, of course, the VCs are more likely to soar to the top when they get in on the ground floor. 🍷

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CASCADE OF FUNDS

| FIRM NAME / FOUNDED | CURRENT FUND AMOUNT (\$M) | FIRST HALF 2000 | | AVERAGE INVESTMENT (\$M) | % INVESTED OUTSIDE STATE | PORTFOLIO COMPANIES | AREA OF FOCUS |
|---------------------------------|---------------------------|-------------------|--------------------|--------------------------|--------------------------|--|---|
| | | INVESTMENTS (\$M) | NO. OF INVESTMENTS | | | | |
| ARCH VENTURE PARTNERS* / 1986 | 400 | 71.5 | 44 | 1.6 | 62 | GREATERGGOOD.COM, IMPROVENET, ILLUMINA, NEW ERA OF NETWORKS, NIMBLE TECHNOLOGY | TECHNOLOGIES DEVELOPED AT UNIVERSITIES, INFORMATION TECHNOLOGY, SCIENCE, INTERNET |
| MADRONA VENTURE GROUP / 1999 | 250 | 58.9 | 29 | 2.0 | 13 | TERABEAM, EMPLOYEASE, GREATERGGOOD.COM | REGIONAL, SOFTWARE, TELECOMMUNICATIONS, INTERNET |
| OLYMPIC VENTURE PARTNERS / 1982 | 150 | 38.9 | 14 | 2.8 | 9 | 800.COM, LOUDEYE TECHNOLOGIES, SIGNALSOFT | COMMUNICATIONS, INTERNET, WIRELESS |
| IGNITION / 2000 | 140 | N/A | 4 | N/A | 50 | ETRIEVE | WIRELESS |
| MAVERON / 1997 | 340 | 11.0 | 4 | 2.7 | 75 | EBAY, EXPCOM, DRUGSTORE.COM, FOOL.COM, LUCY.COM, PEOPLEPC | E-COMMERCE |

SOURCE: VENTURE ECONOMICS, FIRMS, RED HERRING RESEARCH. FIGURES ARE BASED ON INVESTMENTS BY VENTURE FIRMS HEADQUARTERED IN THE STATE. *ARCH OPERATES IN ILLINOIS AND WASHINGTON; FIGURES ARE FOR COMBINED INVESTMENTS.

Attracted by the quality of life, venture capitalists thrive in this contented second city of high technology.

By JOANNA PEARLSTEIN



RAINIERMAKERS: Chad Waite (left) of Olympic Venture Partners and Robert Nelsen of Arch Venture Partners, two venerable Seattle VC firms.

SEATTLE VENTURE capitalists brag so often about their views of Mt. Rainier that it's become a cliché. “It's 50 miles away, and it's 15,000 feet high, and look how much of the mountain you can see!” says Patrick Ennis, a principal at Arch Venture Partners, from his 40th-floor offices in downtown Seattle. Struggling to live in the shadow of their Silicon Valley counterparts, Seattle's VCs claim distinction by their region's physical assets: the Cascade and the Olympic mountain ranges. But the city's VC community has better things to boast about than mountains: mature VC firms, well-established high-technology companies, and a dynamic startup culture. “There's a real sense that things here are exploding,” says Debra Somberg, a partner at Maveron.

Seattle's combination of VCs, strong companies, and entrepreneurs leads to considerable investment activity. The state of Washington ranks ninth among U.S. states with \$901 million in capital invested in 183 deals for the first six months of 2000 (see “United Stats,” page 96).

Even with so much recent venture activity, many Seattle VC firms predate the dot-com frenzy that followed Jeff Bezos and Amazon.com to the area a few years ago (see “Cascade of Funds,” left). Veteran firms include Olympic Venture Partners, founded in 1982, and Arch Venture Partners, founded in 1986. And there are notable newcomers: Madrona Venture Group, one of the most active firms in terms of number of investments, was founded only a year ago, and Maveron is only slightly older.

The same is true for high-tech companies: Amazon.com is a sapling compared to high-tech giants like Microsoft (founded in 1975), Adobe Systems (which gained its Seattle roots with its acquisition

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of desktop publishing pioneer Aldus in 1994), biotech giant Immunex, and McCaw Cellular (sold to AT&T in 1994).

The high number of large high-tech companies based in the Seattle region means the talent pickings are plentiful for startups. "There's an incredible amount of activity because of the willingness to leave Microsoft, Amazon.com, and RealNetworks," says Zack Herlick, a general partner at Seattle-based Maveron (who also helped found this magazine in 1992).

For example, local companies like Loudeye Technologies, Infospace, and Drugstore.com are led by former Microsoft employees.

But Seattle startups aren't founded only by alumni of high-tech companies: Arch Venture Partners specializes in taking technologies germinated in universities and using them to form new products and companies. These include Appliant.com, a Seattle-based developer of Web site management software that was founded by Brian Bershada, a professor of computer science at the University of Washington.

Like Seattle's startups, local VC firms don't fit easily determined patterns. Some, like Olympic Venture Partners and Madrona Venture Group, focus on the Pacific Northwest, while others, like Maveron and Arch Venture Partners, invest in startups nationwide. Only three of Olympic's 17 portfolio companies are located outside of the Pacific Northwest, while just 25 percent of Maveron's companies are regional. That's because Maveron focuses on consumer-oriented companies like Lucy.com, PeoplePC, Drugstore.com, and eBay. (One of Maveron's founders is Howard Schultz, chairman and CEO of Starbucks.)

One of Seattle's newest sources of venture capital, Ignition, was founded by eight Microsoft veterans—including former senior vice president Brad Silverberg—and two former McCaw Cellular executives. Ignition is focusing on wireless Internet companies, which means the company will definitely not think just locally. "The day we decided we were going to do wireless Internet is the day we knew we were going to spend a lot of time on airplanes," says Mr. Silverberg.

Madrona Venture Group, meanwhile, is even less predictable: the company's primarily regional focus has led to investments in everything from Employease, an enterprise software company; to TeraBeam Networks, a hot wireless networking company; Singingfish.com, a streaming media site; and Fishmonger.com, a site for the "global seafood community." (Only in Seattle, where the spectacle of seafood salespeople throwing fish at local farmer's market customers is a tourist attraction, could a VC firm fund not one but two companies with "fish" in their names.)

Seattle's VC community is smaller than that of Silicon Val-

ley and cooperation among firms is common; venture capitalists consistently say the competition is far less cutthroat than in the Valley. "There's a lot less 'screw thy neighbor,'" says Robert Nelsen, managing director at Arch Venture Partners. "We want to be the entrepreneur-friendly firm.

We never compete on deals." In the past, Arch worked with Silicon Valley firms for the "street cred" they lent,

but now, Mr. Nelsen says, "We don't need the Bay Area firms for validation like we used to." There's so much cooperation locally that Madrona and Arch even go so far as to share office space, although Tom Alberg, managing director of Madrona, acknowledges that venture investing in Seattle is growing more competitive.

But that competition isn't coming from Silicon Valley, a two-hour plane ride away. The competition is coming from newcomers within the VC community, which has increased competition not just for good companies, but for the resources necessary to do business. Local VCs complain that the region's low profile has led to a dearth of high-tech oriented law firms and investment banks. "Only recently have we got the Silicon Valley law firms opening offices here," says Maveron's Mr. Herlick. Mr. Nelsen says the region's infrastructure is ten years behind that of the Valley. But Chad Waite, a partner at Olympic Venture Partners, takes a different view. "I was in Silicon Valley ten years ago, and I don't think we're behind Silicon Valley."

Certainly Seattle trails behind Silicon Valley in terms of the amount invested by local venture capitalists. But that lag may not matter, since the region's smaller population and lower housing costs are a draw. "People choose to live here for reasons other than the options packages," says Dan Levitan, cofounder of Maveron. No longer an undiscovered hamlet, Seattle is content to remain in the shadow of Silicon Valley—and Mt. Rainier. 🍷

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WASHINGTON

TOTAL AMOUNT INVESTED, FIRST HALF 2000 **\$901M**

TOTAL NUMBER OF INVESTMENTS, FIRST HALF 2000 **183**

STATE POPULATION **5.8M**

TECH COMPANIES IN THE REGION **MICROSOFT,**

AMAZON.COM, REALNETWORKS.COM



VICTORY GARDENER:
Thomas Uhlman,
president of Lucent
New Ventures.