

# Angel

A D V I S O R

Jim Barksdale's

## New Focus

Elevating Tech Investing—and Literacy

VCs Out, Angels In  
Opportunities in Cast-off Companies?

Top Choice  
Why the Best Investors Want in on AdPilot

Taxing Matters  
Benefits of the Wash-Sale Rule

An AngelSociety  
Magazine from  
Bloomberg

\$4.95



EDITED BY DIANA ASCHER

e

## THE BRAIN

**Thinking outside the box—the typical directory-based computer box, that is.**

**X** SICK OF FILE FOLDERS AND directories on your desktop? Based in Santa Monica, California, TheBrain Technologies, Inc. provides corporate and consumer solutions that let users organize, navigate, and communicate information more effectively. The solutions are based on a patented dynamic graphic interface called TheBrain. It visually displays the natural relationships between information using lines, depth, and color, and allows users to navigate using a simple point and click interface—without files and folders.

Early investors in TheBrain include JUMP Investors, Prime Ventures, Angel Investors, eCompanies Venture Group, Staenberg Private Capital, Esther Dyson, Michael Egan, Robin Neustein, and Mike Santullo.

“The company is focused on bringing the potential of TheBrain to the enterprise, where intelligent access to business information is critical for success,” says Peter Fuchs, TheBrain’s CEO, a 35-year Andersen Consulting veteran. “TheBrain increases productivity by enabling people to find relevant information when they need it.”

The brain behind TheBrain: Harlan Hugh, 26, an ex-University of Toronto student who began programming in high school. Hugh founded the company, hired Fuchs, and selected the role of chief technology officer for himself. He has run development projects with Viacom New Media and DreamWorks Interactive and has designed and developed products that have been commercially distributed worldwide by Microsoft and Electronic Arts. He holds six patent applications relating to TheBrain’s core technologies.

“TheBrain is a superior way to organize,

“Human talent is much harder to come by than venture capital, even today.”

– Guy Kawasaki,  
chairman and CEO of  
Garage.com

visualize, and share information,” says Hugh. “By leveraging the connections between items, it transforms isolated data into usable knowledge. The knowledge maps created by TheBrain provide an ideal platform for integrating data across disparate repositories. This integrated interface is the foundation for our evolution into a business application platform that will enable companies to unite their knowledge, process, and people.”

TheBrain unveiled a joint prototype with Lotus Development in January. “TheBrain’s capabilities provide an insight into a body of knowledge and offer Lotus users an enhanced way to explore and understand information,” says John Caffrey, general manager of the Knowledge Management Product Group at Lotus Development. “It’s a powerful combination that will set a new standard in knowledge-management applications.”

Corporate customers include BP Amoco, Eastman Chemical, Ford, GE Plastics, and Glaxo Wellcome. The United Nations, two universities, the City of Los Angeles, and several Federal agencies are also clients.

TheBrain is trying to raise \$15 million to \$20 million.

**CONTACT:** Peter Fuchs, peter@thebrain.com

## Flowerbud.com

A SITE BY ANY OTHER NAME may not smell as sweet. Flowerbud.com is a national online flower provider, formed as an e-commerce division of Heron Bulb Farms. One of ZDNet’s “Top 10 Best Examples of E-Commerce,” Flowerbud.com circumvents two problems facing online floral distributors: short vase life and uncontrolled quality.

Founders Mark and Alice Hayes established a proprietary distribution system with FedEx that allows flowers to be delivered within 24 hours of being cut. Harvested domestically, the blooms are shipped directly from grower to consumer, usually in bud form.

“FedEx can watch our loads

build, and we talk with them as much as possible,” explains Mark Hayes. This communication preempts delivery delays and provides a better tracking process.

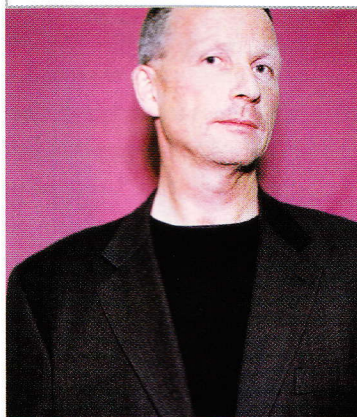
Retail floral sales reached about \$16 billion in 2000, according to the Society of American Florists. Forrester Research projects \$2.4 billion in online flower sales by 2004. Flowers are the third most profitable product on the Web, according to *Florists’ Review*, June 1999.

“Even with the bloodbath in e-commerce, the floral space has stayed alive because this is one of the better products to move through this channel,” Hayes says.

And other e-retailers are taking notice. “We’re about 19 months old now, and we’ve had five acquisition propositions, including one from Martha Stewart,” Hayes reports.

He notes that Flowerbud.com has experienced 400% growth since last year. The company is seeking \$2 million to \$3 million in angel investment. Says Hayes: “That’s all this company needs.”

Flowerbud.com’s Mark Hayes



**CONTACT:** Mark Hayes,  
mark@flowerbud.com

WWW.TIPS

HTTP://BASES.STANFORD.EDU

THE BUSINESS ASSOCIATION OF STANFORD ENGINEERING STUDENTS (BASES) website highlights current events, speakers, dinner series, competitions, and job fair activities. The BASES program explores issues faced by entrepreneurs and leaders of technology companies; facilitates the exchange of entrepreneurial ideas; and provides a forum for BASES members, student groups, faculty, and professionals from all industries to develop new ventures. Every spring, BASES hosts the annual Stanford Entrepreneur’s Challenge, in which participants compete to present business ideas to a panel of venture capitalists. A \$25,000 grand prize is endowed by the Morgenthaler family, and \$50,000 is split among the remaining finalists.

## Smart-Hose

WHAT'S SMART ABOUT A HOSE? This patented system shuts off the flow of fluids or gases if a hose ruptures or fails, explains Andy Abrams, president and CEO of Smart-Hose Technologies, Inc.

The technology is endorsed by the U.S. Department of Transportation, Federal Railroad Administration, Environmental Protection Agency, and Department of Labor-OSHA.

Smart-Hose has inked deals with industry giants such as Goodyear Tire and Rubber Company's Engineered Products Division and end users like Amerigas, Dow Chemical, Shell Chemical, and DuPont.

Smart-Hose received \$3 million in early funding and seeks an additional \$2.5 million.

**CONTACT:** Andy Abrams,  
andyabrams@smarthose.com

## The Chosen Ones

Fourth-quarter venture capital funding. \*

\$7,933	Internet-Specific
4,176	Communications
2,892	Computer Software & Services
1,489	Semiconductors/Other Electric
860	Medical/Health
727	Other Products
722	Biotechnology
367	Computer Hardware
216	Consumer Related
211	Industrial/Energy

\*Millions of dollars. Source: Venture Economics.

## X - COM

Thinking globally, acting locally.

X-COM IS A PINT-SIZE communications software and hardware developer with a growth strategy grounded in rural America. Based in Manassas, Virginia, the company has developed equipment that can extend high-speed Internet service to remote areas that might not otherwise have such access.

The products work with wireless systems or along existing copper telephone lines by strengthening signals to travel further. X-COM's equipment can deliver digital subscriber line (DSL) services, which move data as fast as 10 megabytes per second, about 200 times faster than dial-up modems.

The marketplace for products designed to bridge this "last mile" between the customer and the telephone company's system is crowded with competitors like Palo Alto, California-based Copper Mountain Networks and Largo, Florida-based Paradyne Networks. But most of them are focusing exclusively on large metropolitan areas, says Mike Flesch, X-COM's controller.

That's where the Missouri countryside comes into X-COM's strategy. By first going after the rural and suburban markets, Flesch says, X-COM will avoid competition and gain time to get established.

# Leads



"As the product gets more refined and accepted, we'll branch out to compete with the bigger boys," he explains. In addition, Flesch says X-COM's technology costs less than competitors' and overcomes problems in telephone lines to serve more customers.

X-COM wants to raise \$3.5 million to \$5 million by the end of August to begin selling its equipment to local and rural telephone companies in Missouri and Virginia.

**CONTACT:** Mike Flesch, info@x-cominc.com,  
703-369-4474

*Because of the moribund high-yield market, there's a tremendous demand for mezzanine money. The distressed business should be pretty good.*

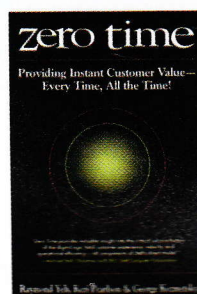
— Thomas H. Lee, Thomas H. Lee Co.

## ZERO TIME

Critical ideas for companies to compete in the new millennium.

THE INTERNET HAS SPOILED US. WE expect unlimited choices now. We want intelligible answers now. And consumers want the right product now. To meet increased consumer expectations, companies must respond instantaneously and comprehensively—in what the authors of this treatise call “zero time.”

Success no longer derives from horizontal



and vertical integration but rather from rapidly constructed “virtual” corporations and/or mutually beneficial strategic alliances. *Zero Time: Providing Instant Customer Value—Every Time, All the Time* proposes that corporations adopt a new culture in which the only constant

is change. Authors Raymond Tzu-Yau Yeh (chairman of FunSoft and professor at the University of Texas at Austin), George Kozmetsky (co-founder of Teledyne, director emeritus of Dell Computer, and former dean of the College and Graduate School of Business at the University of Texas at Austin), and Keri Pearlson (assistant professor of information systems at the University of Texas at Austin) maintain that to succeed, companies must respond to change instantaneously. More important, they should respond to anticipated change.

The book outlines a new business model that integrates competing corporate functions into a responsive, frictionless whole. The authors recognize that, today, customer loyalty lasts no longer than the most recent transaction. Companies need to clearly define target customers and then offer precisely the products they desire. Success takes more than simply extending older products into new markets. Rather, companies must

### WHAT I READ

JACK KEMP

▣ **THE READER** Jack Kemp, co-director of Empower America, a public policy and advocacy organization he co-founded in 1993 with former Secretary of Education William Bennett and former U.S. Ambassador to the United Nations Jeane Kirkpatrick; former Republican vice presidential candidate. Kemp is also an angel investor. ▣ **THE BOOK** *Maestro: Greenspan's Fed and the American Boom*, by Bob Woodward (Simon & Schuster, 2000) ▣ **THE SKINNY** “The conclusion is that the central bank of the United States is independent but heavily influenced by macropolitical as well as macroeconomic issues. I'm struck by what Greenspan tells Woodward—that economic growth in and of itself if it's above 2.5% is ipso facto inflationary!” ▣ **ANGEL ANGLE** “It is imperative to understand the relationships among Congress, the White House, and the Fed.”

# Leads

introduce new products into new markets before saturating existing markets. The authors identify five instantaneous disciplines to remain competitive: value alignment, learning, adaptation, execution, and involvement.

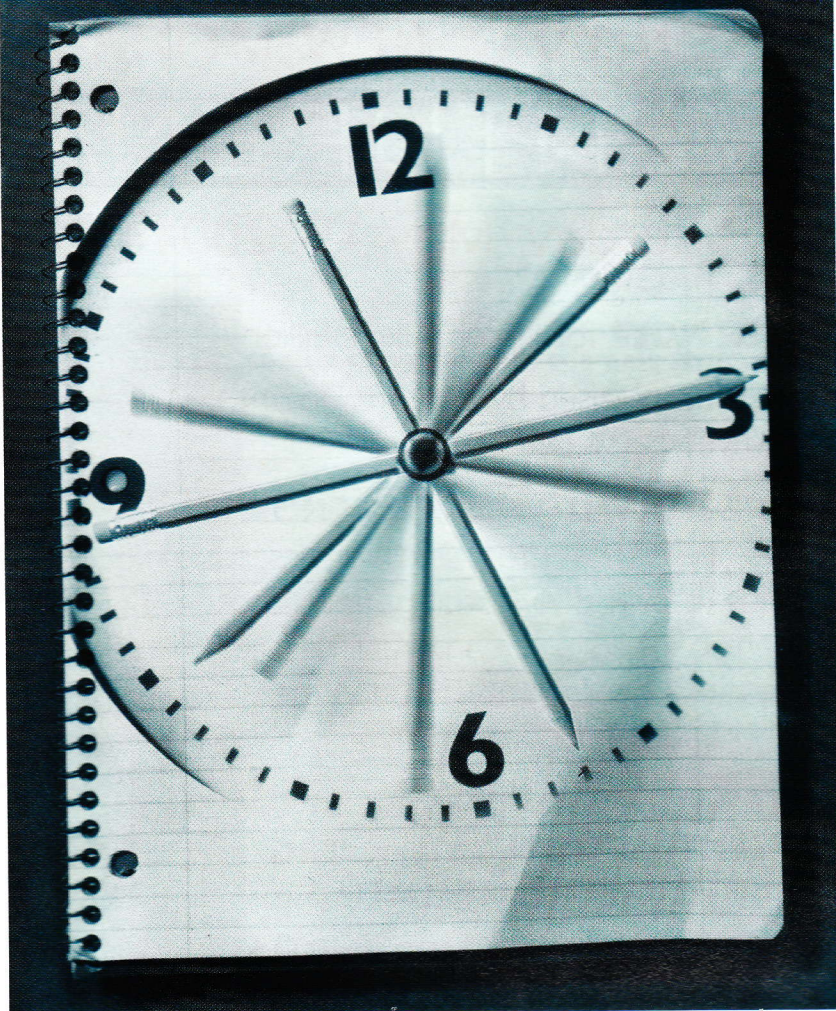
*Zero Time* not only offers new insights in a readable, understandable style but drives home its theories by illustrating them with the experiences of real companies, such as Dell, GE, Intel, and Cisco. For example, the authors explain CEO Jack Welch's triumph over GE's hierarchy and bureaucracy, attributing it in large part to a nimbleness and adaptability that he infused into the corporate culture after taking the reins in 1981. The case study is punctuated by messages for managers that highlight the practices of an instant-adaptation company. In presenting case studies that demonstrate successes of companies in each of the five disciplines, the authors provide practical strategies for integration.

*Zero Time* pulls together axioms and insights from the authors' research and that of others into a comprehensive yet concise treatise on how to do business in the new millennium. Although *Zero Time* reads like a best-seller, it contains such a wealth of information as to qualify as a reference manual. □

*Oliver Sockwell is an executive in residence at Columbia University's Graduate School of Business, founder of Construction and Loan Insurance Corp., and an active angel investor.*

*I expect e-commerce to reach \$1.6 trillion by 2003. I also see Europe overtaking the U.S. in a matter of years.*

— **Michael Dell**, chairman and CEO, Dell Computer



## Collegiate Media Management

WHEN STUDENTS SAY THEY'VE been studying 24-7, they may mean something new. Collegiate Media Management (CMM), through its website, [www.STUDY24-7.com](http://www.STUDY24-7.com) (S247), provides e-learning and marketing services targeting consumers between the ages of 13 and 33. "CMM has two businesses: campus-based marketing and e-learning services," explains Craig Green, co-CEO of CMM. Companies hire CMM to promote their brands on college campuses across North America. Marketing campaigns typically involve distributing promotional items and recruiting new customers for the client.

"S247 hires students and instructors across North America as Virtual Class Hosts to publish

course materials online and market S247's services to fellow students," says Green. When students register with S247, they gain access to class notes, quizzes, study guides, dictionaries, discussion groups, discounts on products and services, and monthly drawings (including one for a \$10,000 annual tuition prize).

Co-CEO Brian Maser attributes much of CMM's success to "amazing advisors that helped us survive when the competition didn't."

From offices in Miami and Santa Monica, California, the duo has already raised \$1.95 million, and is seeking an additional \$500,000.

**CONTACT:** Craig Green, 305-953-7826, [craig@study24-7.com](mailto:craig@study24-7.com)

## ConferenceSeek

DOCTORS AND OTHER HEALTH professionals can now participate in continuing education without taking time out to attend conferences. Evanston, Illinois-based ConferenceSeek.com is an online forum for this type of information exchange.

The health-care-meeting market is a \$20 billion-a-year piece of the \$120 billion conference industry. The company makes content from meetings available on its website. Associations pay to post conference materials, and Internet users purchase the materials. The site also has a medical-conference database search engine.

"It's a way of taking a traditional business with a proven market need and gaining efficiencies by moving the model to the Internet," explains Amy Ravi, ConferenceSeek.com's president, CEO, and co-founder.

The company has raised about \$600,000 to date from private angel investors and is seeking another \$1.35 million by May 2001.

**CONTACT:** Amy Ravi, 312-835-9429, aravi@conferencesek.com

# Leads

## APRIL FOOLS FILMS

### Closet Stephen Spielbergs: What role would you like to play?

WANT TO GET IN ON THE GROUND level of the newest high-tech venture? April Fools! Actually, if you want to take a breather from the dot.com dimension, April Fools Films (a.k.a. A.F.F. Productions) might provide some fresh air. Located in Wilton, Connecticut, the company's mission is to create and produce feature films for the theatrical, television, and video markets.

A.F.F.'s first project, *Tommy Hobson and a Love Supreme*, is a comedy that will shoot in Connecticut and New York in the spring of 2001. The picture is billed as a coming-of-age story in the vein of *The Graduate*, *Rushmore*, and *Risky Business*.

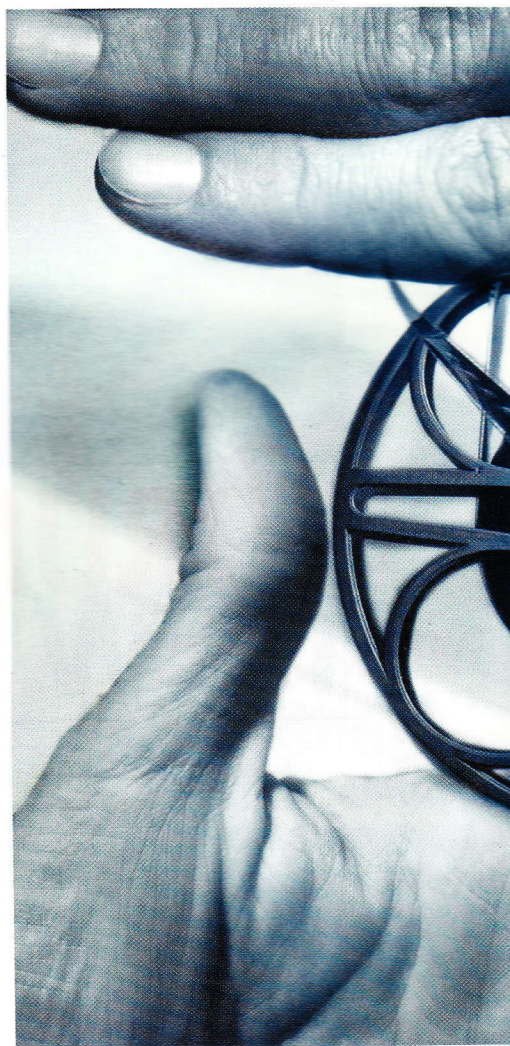
The film's writer and director, Justin King, trained at the American Film Institute and has been involved in the film industry for 10 years. King wrote and directed the award-winning shorts *Cheap Curry and Calculus* and *Ramsay*.

Co-producer Kenn Woodard is a writer, director, and producer who has won awards from the New Dramatists Guild and the International New Playwrights Foundation. He has worked for HBO, Collier Commercial Casting, Talent Central, and the Actor's

Connection. He continually raises funds for the development of new theater works for international theater festivals.

Investors in the film include Christopher Johnson of Capital Markets Trading in London, and Brett Berry of Fresh Market in Greensboro, North Carolina.

"It's a fun way to make money," says associate producer and actor J. Everett Sherman, who has been reading the part of Barclay, "a tightly wrapped, stiff, snobby guy," in



## SKILLS SET

## PIERS ANTHONY

FOR EVERY TITLE ON THE SHELVES OF BOOKSTORES LIKE BARNES & NOBLE, there are more than 10 manuscripts rejected by publishers. Piers Anthony, author of more than 100 science fiction and fantasy books, says that's a shame. That's why he became one of Xlibris's main investors more than three years ago.

Xlibris will print any book. A no-frills version is free. Fancy book covers and Library of Congress designations cost more. The company and the author share the revenue from sales.

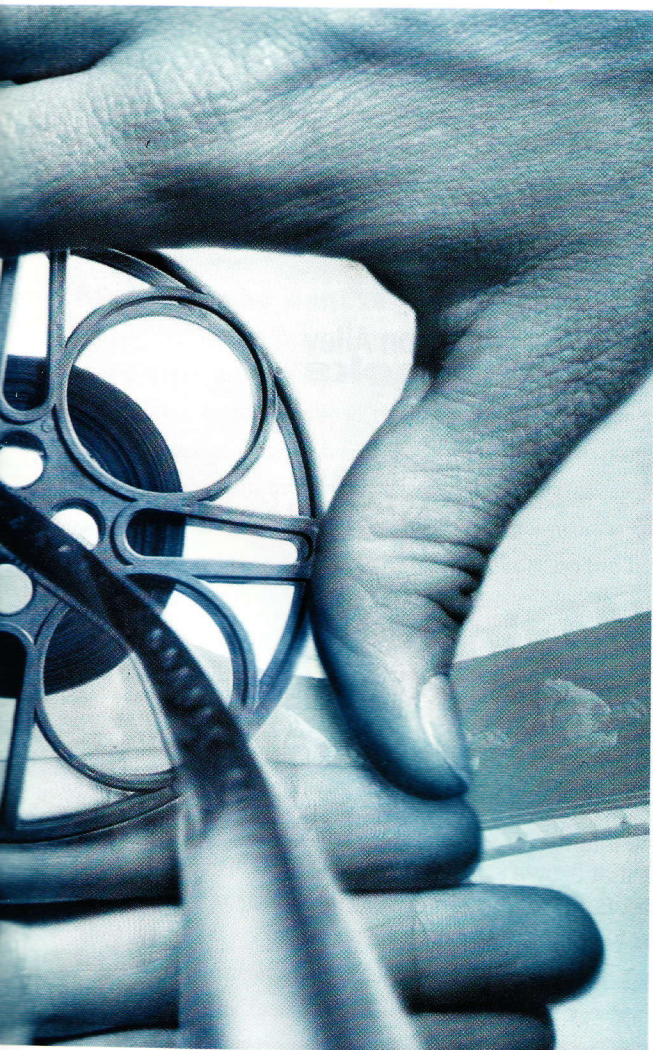
As a board member, Anthony convinced Xlibris to give authors all rights to their work. He helped the company make contacts in the industry, and in late 1998, when it was running out of money, provided a bridge loan. As CEO John Feldcamp says, "The right angel can make the difference between success and failure."

rehearsals. "Tommy, in contrast, is the loose, confused, young man in search of true love—he wants his ideal, as we all do, but it's not all that likely he'll get it (Al Pacino at the Golden Globes aside)."

"This film is being financed through private equity, and fundraising is now under way," says King. "Independent movies with budgets under \$1 million have lower profitability hurdles, and allow private investors to play a fun and rewarding role in the film industry. No indy picture will ever do *Blair Witch* numbers again [15,000% profit], but returns in the 100% to 200% range are standard for a successful independent film."

April Fools Films is seeking a maximum of \$1.5 million in seed funding.

CONTACT: Kenn Woodard, [moviefund@aol.com](mailto:moviefund@aol.com)



Mercado's CEO, Caroline Cartellieri

## Mercado Networks

IS THIS A CUSTOM-MADE opportunity? Listen to Mercado CEO Caroline Cartellieri, a former McKinsey & Co. consultant, and it's easy to think so. "The corporate gift market is a \$97 billion market that includes everything from T-shirts and key rings to executive gifts like golf clubs and crystal. It also includes gourmet gifts, flowers, wine, and sports apparel," she explains. "It's a highly fragmented market, with over 15,000 distributors, that is very driven by customization, as corporate clients are very specific about logo placement, artwork color, and individuality of the product. Most companies don't have a specific 'gift budget,' and many companies are shocked to find out how much they actually spend once they start tracking all the individual purchases."

Mercado's solutions let suppliers and manufacturers mass-customize products, automate order fulfillment, and drop-ship products directly to their customers, taking care of coordination headaches. Founded as eDelights.com in May 1999, New York City-based Mercado has since attracted corporate

clients including Lucent Technologies, DoubleClick, Bizrate.com, Lehman Brothers, Miramax Films, and law firm Nixon Peabody.

Mercado's Internet-based solutions include design and development of corporate-branded, large-scale Extranet Gift Centers (XGCs) and smaller, customized Internet Gift Centers (IGCs). These centers bring customization solutions directly to the desktops of incentive purchasers like recruiting managers, marketing officers, and human-resources professionals.

The company is also an applications service provider, developing cXML-based customization solutions for merchants and retailers. Its patent-pending technology offers clients such as 1-800-FLOWERS the online ability to customize products and product packaging.

"We've successfully solved the challenge of point-of-sale customization, which is becoming an increasingly important differentiator for companies seeking to keep costs down while offering added value to their customers," says Cartellieri. "We are aggressively attacking the corporate gift market and licensing to companies in industries ranging from pharmaceuticals to diamonds. This allows us to keep our burn rate to a minimum while maximizing revenues."

Mercado Networks has raised \$2.7 million from investors, including PSINet Ventures and Oracle. The company is seeking an additional \$3 million to \$5 million.

CONTACT: Caroline Cartellieri, [ccartellieri@mercadonetworks.com](mailto:ccartellieri@mercadonetworks.com), 212-962-2551

**JIM BARKSDALE'S**

**NEV**

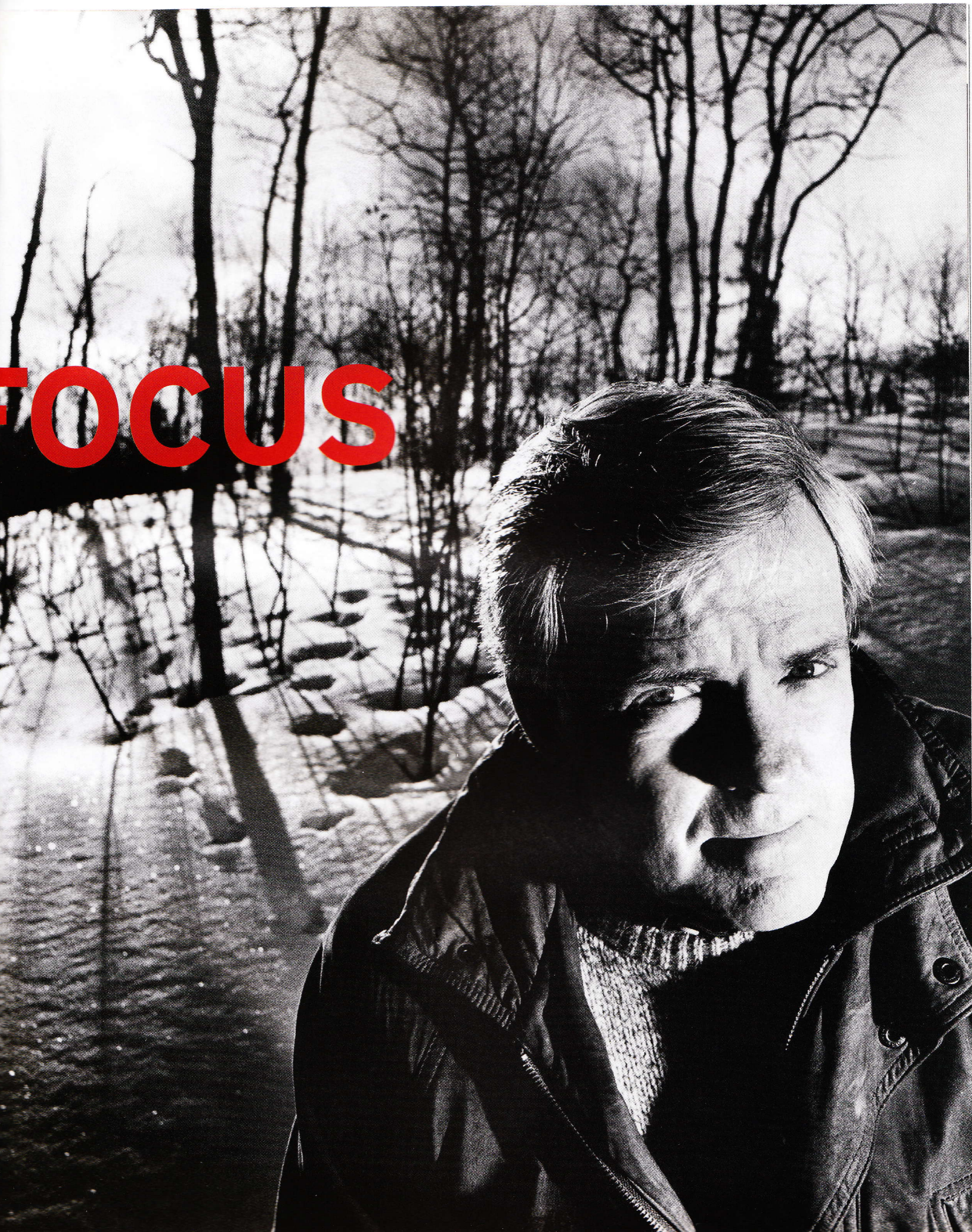
What do falling valuations in the  
tech sector and the \$100 million-endowed  
Barksdale Reading Institute have in common?  
They both signal that things are on the way up,  
**he says.**

COVER STORY

BY DIANA ASCHER

PHOTOGRAPHS BY BRIAN SMALE

FOCUS



JIM BARKSDALE IS RELAXING IN A WELL-WORN leather chair beside an immense stone fireplace, looking out the picture window at the mountains of Aspen, where it has just begun to snow. He's talking about two seemingly disparate issues: low literacy levels in Mississippi and the dot.com industry. Both have bottomed. Mississippi, the state with the lowest per-capita income in the U.S., has student test scores in the basement for reading and other subjects. And the dot.com heyday ended abruptly in March 2000, which has made angel and venture capital investment in start-ups increasingly more difficult to attract.

But these two things are closely related in Barksdale's mind: "A big reason why we're a quarter of a million to half a million people short in the tech industry in America is because our schools don't turn out qualified young people at the public school level."

Putting money into either area might raise a few eyebrows among conservative investors, but not Barksdale. His wife, Sally, and he have created the Barksdale Reading Institute with a \$100 million investment to raise reading levels in Mississippi, supported by an advocacy council that reads like a Who's Who of educational reform. And the former CEO of Netscape is investing in his own \$180 million seed-investment firm, the Barksdale Group, without breaking stride. "We're almost two-thirds of the way vested in 15 companies that we're very excited about, and we've [already] made 22 investments," Jim reports.

"Shining the spotlight on an area will inevitably result in better performance, just because people know you are looking," he says. "It's the Hawthorne effect." The effect was first noticed in Western Electric's Hawthorne plant near Chicago. Production increased not as a consequence of actual changes in working conditions introduced by the plant's management, but because management demonstrated interest in such improvements. If entrepreneurs hear that funding is harder to come by, swoosh! valuations come right down. If schoolteachers know that results will be measured every year, they will put extra effort into helping the students excel. Such scrutiny is a necessity, and fortunately for kids in Mississippi public schools and budding entrepreneurs nationwide, Jim and Sally Barksdale are paying attention—by investing, mentoring, and monitoring.

Jim is on the technology advisory staff of President Bush's administration; he's a co-chairman of the Internet Policy Institute; he sits on the boards of companies such

as AOL Time Warner, Federal Express, 3re.com, myCFO, Respond.com, SubmitOrder.com, Sun Microsystems, Tellme, and Webvan Group; and he speaks frequently about the technology sector in such forums as the Memphis Technology Summit, America: On the Net Town Hall Meeting, and the Mississippi Economic Council.

Both Sally and Jim grew up in Mississippi and still have what they call "serious roots" there. After extensive research into and participation in educational reform programs in Texas and California, Jim and Sally decided to found the Barksdale Reading Institute back home in Mississippi. They wanted to ensure that their efforts would be measurable and focused. Jim sums up their philanthropic philosophy: "Money isn't everything. You can give a lot of money to something and it may or may not have an impact. Responsibility and accountability, which are basic to any business judgments you make, are also basic to any investment in altruistic causes because without that you become worried that it either isn't appreciated or didn't work."

Whereas the business sector typically has benchmarks by which to measure success, the bottom line isn't as clear with philanthropic investments. "You have to have some mechanism to know that this is working," says Jim. "Every good businessperson knows you can't manage what you can't measure. Well, the same is true in this sort of thing, if your purpose is to create change."

When the Barksdales chose to target illiteracy in Mississippi, they didn't want to give a gift. They approached the project as an investment—and decided to turn down requests from other charitable causes while they concentrated on the Barksdale Reading Institute. "You just focus it like you would artillery fire," Jim explains. "You don't just spray bullets, you focus on the point of attack and put all the weight behind one arrow. We say, 'Our focus is on Mississippi literacy.'"

The interest earned on that \$100 million the couple put into the

#### IN THE HOT SEAT

Measurement is the key to Jim and Sally Barksdale's approach.

We needed someone who understood the bottom line, the budget, and the need for results—to run it like a business instead of a school, she says.



Shining a spotlight on an area will inevitably  
result in better performance just because  
people know you are looking,  
he says.



project funds programs for 40 schools in Mississippi—14,000 students currently. “We hope to have 200 schools in the program in about two or three years,” Jim says. But it’s not a freebie—not by a long shot. “If, at the end of year five, reading scores have reached an acceptable level for third graders in this state, we’ll just give the hundred million [to the school system],” he explains. If the scores the Barksdales expect are not achieved, however, the foundation can redirect the \$100 million investment toward some other cause. The conditions may seem unusual in the realm of educational gifts, but such standards are common practice in business, and that’s what Jim knows best. The Barksdales clearly established their expectations for improved reading scores of the children in the schools participating in the Reading Institute programs, and offered a goal toward which teachers, administrators, students, and parents could work.

They then had to find someone to administer the foundation. “We realized that the focus of an educator is different from the focus of a businessman,” explains Sally. “And what we really needed was someone who had been in the business world who understood the bottom line and the budget and the need for results. Someone to run it like a business instead of running it like a school.” After an exhaustive search, the Barksdales found their foundation director closer to home than they expected—Jim’s brother, Claiborne Barksdale. Claiborne left his position as associate general counsel at Bell South Cellular Corp.’s Atlanta office and returned home with his family to Mississippi. Two of Jim and Sally’s children also represent the family: daughter Susan Barksdale Howorth serves on the Reading Institute’s board of directors, and son David Barksdale sits on the advocacy council. With the right people in place and goals firmly established,

Jim and Sally faced the toughest question: How do you gauge progress?

“Like in business, you can have measurements that will make you feel good, but they may not assess the critical success factors of the business in an accurate way,” Jim explains. “I had a lot of experience with this. When I was chief operating officer of Federal Express, we launched a major effort back in ’89 that resulted in FedEx being the first service company to win the Malcolm Baldrige National Quality Award in its second year. We instituted some very specific measurements that absolutely measured successfully the quality of the service in a way that couldn’t be tricked, and then awarded every member of management a good bonus only if we hit that number. My nature is to measure and reward for success. It’s always been part of my management style.”

Jim’s style pervades the Barksdale Group, founded in 1999. For him and his partners—Peter Currie (former Netscape CFO), Danny Rimer (former head of Chase H&Q Internet Research and Investment Banking Group), and Quincy Smith (former Netscape senior director of corporate development and investor relations)—companies like Tellme and Respond.com were the right investments (see sidebar).

Now that the spotlight has been cast upon start-up ventures and their fundamentals, valuations have decreased to more appropriate levels. And the Barksdale Group is sifting out the best investments. The group specializes in Internet companies that the partners believe will transform the Net economy. For example, the Barksdale Group’s investment in Escalate was based on the belief that more and more bricks-and-mortar retailers and manufacturers are seeking end-to-end outsourcing for not only hosting and back-end technology but also front-end e-commerce capabilities. Escalate enables

retailers and manufacturers to sell online with an integrated solution. The online channel-management system allows the user to make all business decisions while Escalate handles infrastructure, applications, and integration. The company offers a fully hosted online store, pre-integrated business applications and third-party services, business intelligence and advisory services, and a complete outsourced technology infrastructure.

The group’s investment in myCFO was prompted by changes that took place in the financial-services industry as a result of the Internet. The altered financial-services landscape has created a class of high-net-worth individuals who are proactive in managing their wealth. MyCFO is an Internet-based financial-services firm that provides the user with a personal chief financial officer who is a preeminent CPA or attorney with more

## TELLME

## BARSDALE’S FAVORITE

TELLME IS AN EARLY INVESTOR’S DREAM, A CONCEPT INITIATED BY AN INTERN at Netscape, engendered by Netscape’s former vice president of technology and current CEO of Tellme Mike McCue, and now nurtured by the likes of Jim Barksdale, John Doerr, AT&T’s Mike Armstrong, and ex-Microsoft Brad Silverberg. McCue assembled a management team drawn from feuding technology companies—like Netscape, Microsoft, and AOL—and from the realm of speech-recognition technology—like Matt Marx from SpeechWorks, and Lisa Stifelmann from MIT Media Lab—to create an Internet browser for the telephone.

“The management team is the most important element in company building,” says Barksdale. “Tellme has pulled in the best and brightest from several key companies, and that’s something we’ve kept an eye on.” Jim’s partner Danny Rimer was the first to invest in Tellme in February 1999. In July 1999 the company garnered \$6 million in seed money from an unlikely duo—Jim’s Barksdale Group and Brad Silverberg. “We stepped in to take the vast majority of the Series A,” Jim explains, “but have also invested in later rounds to show our support.” Next, Jim says, is to help create the business. “To ensure that a great idea will turn into a profitable business, we help map out demonstrable timelines, implement real processes, and work closely to grow on a day-by-day basis.”

than a decade of experience, typically from the "Big Five" professional services firms.

The Barksdale Group decided to invest in Respond.com, expecting its network to fundamentally change the way merchants—both large and small—do business with their customers. Respond.com is an online shopping service that allows buyers to "shop by request" using their own words to order a wide range of products and services. Respond.com has partnered with America Online, Excite@Home, and other online businesses.

The Barksdale Group partners selected ViAir, Inc. to give them a piece of the expanding wireless-Web market. ViAir delivers highly scalable, integrated, and customizable mobile applications and management tools. ViAir was created by the veterans who developed Sprint PCS's Wireless Web and Microsoft's MSN Mobile services.

The partners have a highly selective process by which investments or referrals are made. "We get about 200 to 300 unsolicited proposals a week. And we have a process of responding to them—obviously we can't invest in all of them," Jim says. "If we can help [those in which we don't invest] without it being a big time-consumer, we try to help: We'll refer them or give them some ideas of people who might be interested. Even though we don't refer them in some cases, we can say, 'This is something that Texas Pacific Group or Atlantic Partners or somebody else might like because of this specific thing that rings a bell.' Most of the investments we make, though—everybody in business would tell you this—come from a network of people we know, or it was referred to us by someone we know. Or they have an involvement in it. That's the dark secret of venture investment."

"We refer some to Ron [Conway at Angel Investors Fund]. If it's a school fund that we don't want to do, we may send it over to Kim Smith at the New Schools Fund. We send referrals to what we call 'cousins,' which are Benchmark, SilverLake Partners, and Kleiner Perkins, and they send them to us. Or we may go in jointly with them. In fact, several of the Kleiner Perkins partners as individuals are limited partners in our fund."

Jim's time is his most valuable asset, and he has made changes in his own board memberships—including stepping down from Palm's board—in order to devote his time to nurturing his investments—both business and philanthropic. "Companies that we have relatively significant investment in—that's where I want to put my time," he explains. "Now, I'm on some boards like FedEx because of historical reasons and friendships and so forth. And it keeps me involved in a very important part of our venture company,

namely, the infrastructure of the New Economy. That's why I'm also on the board of SubmitOrder, one of our ventures out of Columbus, Ohio, that does e-fulfillment on an outsource basis. We do fulfillment for a number of companies now, and we're in the third year of operation. It's just going and going. Part of the reason we're successful there is because of my experience and involvement with Federal Express, so these things kind of play off each other."

He has also made some lifestyle changes, moving his primary residence to Aspen, and commuting to Silicon Valley. "I probably spend half of my time on the road, and half of my time here," Jim says, standing on the front porch and looking out toward the mountains surrounding Independence Pass. The snow is falling more heavily now, and while his counterparts in California may be preparing for tee times, Jim has an appointment on the ski slopes. The Aspen community has become home to investors like John Doerr, and tech executives like Sun Microsystems's Bill Joy and Andy Bechtolsheim.

Though they could have been hobnobbing with the influential in Aspen, the Barksdales spent the Christmas holidays in Mississippi with relatives. Close family ties keep Jim and Sally focused on the importance of giving back, whether it's helping children in Mississippi or entrepreneurs on the prowl. At a time when investors are more hesitant to take a chance on new technology companies, the attention to business fundamentals should encourage a sort of Hawthorne effect in the sector: better performance under more stringent scrutiny. With the Barksdales and others like them increasingly committed to changing a core social problem that contributes to a shortage of qualified workers in our country, a philanthropic investment pays off on two fronts. □

*Diana Ascher is the managing editor of Angel Advisor.*

#### ADVOCACY COUNCIL BARKSDALE READING INSTITUTE

**David Barksdale** *Family Representative*

**John Doerr** *General Partner of  
Kleiner Perkins Caufield & Byers,  
Venture Capitalist*

**Ellen Douglas (Josephine Haxton)** *Author*

**Richard Ford** *Author*

**Morgan Freeman** *Actor, Activist*

**John Grisham** *Author, Publisher,  
Former Mississippi State Representative*

**Trent Lott** *Senate Republican  
Majority Leader*

**Archie Manning** *Former NFL Quarterback*

**Bob Pittman** *President and COO  
of AOL Time Warner*

**Betsy Pokorny** *Community Member*

**Colin Powell** *U.S. Secretary of State;  
Chairman, America's Promise*

**Charlie Rose** *Broadcast Journalist*

**Fred Smith** *Founder, Chairman,  
President, and CEO of FedEx Corp.*

**Kim Smith** *Founding President,  
New Schools Venture Fund*

**Jerry Rice** *NFL Player; San Francisco 49er*

**Mary Alice Taylor** *Board of Directors,  
Webvan Group Inc.; Former Chairman  
and CEO of HomeGrocer.com*

**William Winter** *Former Governor of the  
State of Mississippi*

# Fast Tracking

## Incubators: Still Kickin'. A look at the hatchery business in the U.S. and abroad.

### After the Fall

IN LIGHT OF HIGHLY PUBLICIZED TROUBLES AT INCUBATORS, WE asked the authors of *The State of the Incubator Marketplace* how these enterprises that nurture fledgling companies are faring since the technology sector implosion of March 2000. "The incubator model can be viable, but many current incubators are not," says Morten Hansen, assistant professor of business administration at Harvard Business School and one of the authors of the study, who gave us up-to-the-minute numbers.

### Country Totals

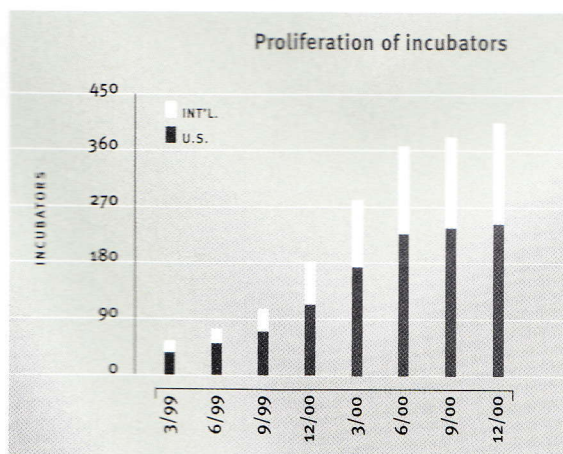
INCUBATORS MUST HAVE AN international presence to be successful. Current totals:

222	United States
28	United Kingdom
14	Canada
11	China
10	Brazil

6 France 6 Germany 6 India  
 5 Australia 5 Japan 5 Israel  
 5 Netherlands 5 Sweden  
 3 Ireland 3 Italy 2 Austria  
 2 Argentina 2 Belgium 2 Korea  
 2 Singapore 1 Czech Republic  
 1 Finland 1 Lebanon 1 Malta  
 1 Norway 1 South Africa 1 Spain  
 1 Switzerland 1 Thailand

### Breeding Grounds

"INCUBATORS FILL THE EXPERIENCE VOID OF THE VCS IN other countries. Most come out of investment banking there, not from the entrepreneurial world, as in the U.S.," says Johan Rugfelt of Result, an international consulting firm.



Source: Morten Hansen.

### Empty Nests

THE GEOGRAPHIC DISTRIBUTION of incubators is skewed. Most reside in the U.S., leaving huge growth potential in regions around the globe that lack an incubator presence.

236  
NORTH AMERICA

66  
EUROPE

39  
ASIA

12  
LATIN AMERICA

1  
AFRICA

## From Sea to Shining Sea

DESPITE ITS REPUTATION FOR INTERNET AND HIGH-TECH ACTIVITY, the Pacific Northwest is home to relatively few incubator firms. U.S.-based incubators tend to reside in California or New York, as well as other East Coast states like Massachusetts and Pennsylvania. The researchers note that many U.S. states with significant concentrations of venture capital dollars lack a strong incubator presence. "Currently, incubators are city-centric, but a viable model needs to be networked, focused, and global," says Hansen.

New York's **33** incubator firms compete for \$1.15 billion in total venture capital funding.

## Lands of Opportunity

Some surprising states have the largest ratio of VC dollars per incubator.

State	Number of Incubators	Total VC Dollars*	VC\$: Incubators*
1 Illinois	3	\$491	\$163.7
2 Oregon	1	141	141.0
3 Washington	5	640	128.0
4 Georgia	6	717	119.5
5 Minnesota	2	238	119.0
6 California	66	7,274	110.2
7 Colorado	4	423	105.8
8 Texas	10	787	78.4
9 Missouri	2	138	69.0
10 North Carolina	4	138	69.0

\*Numbers are in millions.

Source: *The State of the Incubator Marketplace*, by Morten T. Hansen, Nitin Nohria, and Jeffrey A. Berger (Harvard Business School).

## Top 10 States

U.S. INCUBATORS ARE CONCENTRATED in some states, where angels may find ample opportunity for mentoring and for picking up start-ups that can no longer remain in an incubator facility. Researchers expect weaker incubators to fail, and stronger ones to ally or consolidate to achieve scale and geographical reach.

66	California
33	New York
19	Massachusetts
12	Pennsylvania
10	Florida
10	Texas
9	Virginia
6	New Jersey
6	Georgia
5	Washington

Angel Advisor (ISSN 1532-3552) is published bimonthly by Bloomberg L.P., 100 Business Park Drive, Princeton, NJ 08558.

All requests for permissions and reprints must be made in writing to Angel Advisor, P.O. Box 888, Princeton, NJ 08542-0888. © Copyright 2001, AngelSociety LLC. All rights reserved. Angel Advisor and AngelSociety are service marks of AngelSociety LLC. Bloomberg, THE BLOOMBERG FORUM, BLOOMBERG MARKETS, BLOOMBERG NEWS, BLOOMBERG RADIO, BLOOMBERG PERSONAL BOOKSHELF, BLOOMBERG PERSONAL FINANCE, BLOOMBERG PRESS, BLOOMBERG PROFESSIONAL LIBRARY, BLOOMBERG SMALL BUSINESS, BLOOMBERG TRADEBOOK, BLOOMBERG TELEVISION, and BLOOMBERG WEALTH MANAGER are trademarks and service marks of Bloomberg L.P. Neither Angel Advisor nor Bloomberg assumes any liability resulting from actions taken based on the information included in this magazine. Mention of a company or security does not constitute endorsement. Some contributors to Angel Advisor may have active positions in securities or companies discussed in this issue.