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Membership Committee

Mike Bateman
 David Burwen
 Brian Frenzel
 Martin Lefebvre
 Art Reidel
 Stephen Taylor

Dinner Details

Date: Wed., October 18, 2006

Place: Los Altos Golf and Country Club

Time: 6:15 - 9:00 pm

RSVP: 650.321.0854
rsvp@bandangels.com

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Introduction

“The traditional venture model seems to us to be broken” was the theme of the introduction I wrote to the last newsletter; but this is also the verbatim quote from Steve Dow, a general partner at Sevin Rosen Funds, in an interview published in the *New York Times* on October 7th, 2006. The article went on to say:

“Sevin Rosen, a 25-year-old firm that is among the most respected in the industry, was in the process of closing its 10th fund and had received commitments from investors for \$250 million to \$300 million, Mr. Dow said. But in a letter sent to those investors yesterday, Sevin Rosen said it had decided to abort that process. “We have decided to take the radical step of returning the commitments you have given us for Fund X,” the firm wrote. Explaining its decision, Sevin Rosen, said that too much money had flooded the venture business and too many companies were being given financing in every conceivable sector. But excess of capital is only part of the problem, the firm said. In its letter, it bemoaned what it described as “a terribly weak exit environment,” a reference to the dearth of initial public offerings and to a market for acquisitions at valuations that it considers too low to deliver the kind of returns that venture investors expect.”

It’s not really clear how much of this action was Sevin Rosen actually having trouble raising money from LPs. Certainly several other notable firms, Mobius and Vanguard being recent examples, have given up on well-publicized fund raising efforts because LPs were unwilling to invest. But whether voluntary or involuntary, Sevin Rosen throwing in the towel is a notable sign that, despite the free flow of cash to companies, the numerous up-rounds we are seeing, and the worsening traffic on 101, all is not well in the venture world. But, for all the reasons mentioned in the last newsletter; what is bad for big VCs might not be bad for Angels. Still, we should be doubly cautious about



playing the VC game as angels—capital efficient companies, requiring small absolute investments (<\$3M total), at low valuations (<\$3M) with modest exit expectations (\$10→ \$20M) are a place that only angels can systemically play....maybe we should?

Speaking of where angels play, our member David Burwen was in Venice last month and sent us this picture of a painting of our member Michael Geilhufe hanging in the Ca’ Rezzonico Museum. How the 15th century artist guessed so accurately what Michael would look like is a mystery, but it caught him in the proper company of his fellow angels. - Ian