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# BUSINESS

## Venture capitalists buy into state

By MICHELLE SCHNEIDER  
Rocky Mountain News Staff Writer

TV Communications Network Inc. neared the end of its financial rope last month.

The small Aurora company, a supplier of wireless cable TV, needed more money to start providing programming.

That much-needed cash came from Columbine Trading Co. in the form of a \$3 million venture capital investment.

"For us, it came at a very important point of our growth period," said TVCN vice president Kenneth Roznoy. "Having that infusion of capital will allow us to attract another 20,000 subscribers — enough to really get our company going."

TVCN ranks as one of the many small Colorado firms that have piqued the interest of venture capitalists — financiers who dole out money to promising companies.

Colorado claimed \$58.8 million in venture capital last year, ahead of all but six states. That represents nearly a 93% increase from the \$30.5 million in venture capital Colorado received in 1987.

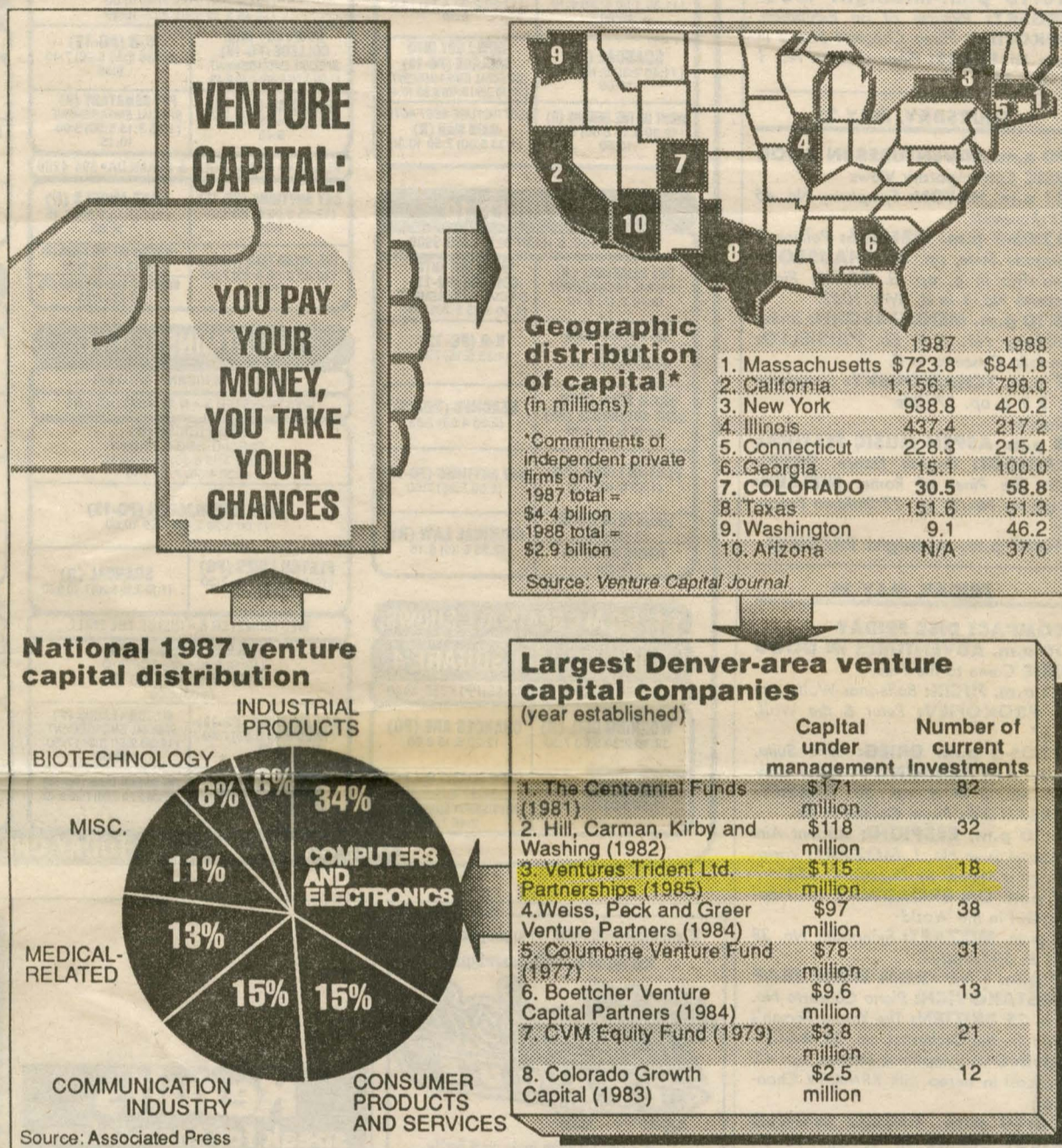
And it's about 2% of the \$2.9 billion in venture capital invested nationwide in 1988.

The business of venture capital has exploded in the last decade. Ten years ago, venture firms controlled about \$2.5 billion in total. Now, they have more than \$30 billion at their disposal, far more than the combined capital of the seven largest U.S. investment banking houses.

Even with that rapid growth, the venture capital circle remains small. Frank Pope, executive vice president of Technology Funding in San Mateo, Calif., estimates there are about 3,000 professional venture capitalists in only 700 companies nationwide.

In Colorado, there are fewer than 50 venture capitalists.

Colorado companies had more than \$330 million of venture capital money under management in



"The Hewlett-Packards and the IBMs and the Martin Mariettas opened up out here," Pearsall said. "That brought technology to Colorado, and it brought top-grade people in technology to Colorado."

Pope said Colorado will probably never be as hot a venture capital spot as California's Silicon Valley or the Route 128 loop on the East Coast.

"Colorado is a good, secondary market, and it's expanding. You've got a combination of well-educated people, good real estate values and a high quality of life. Colorado also is centrally located and has a hub airport — all that's attractive to start-up operations."

Venture capital is generally regarded as a high-risk investment, but several venture capitalists say the risk is overrated.

"Venture capital provides two to three times the return as real estate, with about equal, or maybe 20% higher, risk," Dubovoy said.

"There are very few instances of people really losing money in this business — barring economic collapse or some really stupid decision," Pope added.

Those who put money into venture capital funds are primarily institutional investors, such as pension funds, said Terry Winters, general partner of the Columbine Venture Funds.

Columbine looks for a minimum investment of \$1 million, and most investors put in between \$1 million and \$5 million, he said.

"We don't like to have any one investor in a fund that has more than 10% to 20% of the fund," Winters said. "We don't like to be dominated by anyone."

Venture capital is a long-term investment, with returns not expected for several years. The cycle for raising a fund, investing it and liquidating the assets of the companies that received capital is about 10 years.

Among the bevy of Colorado high-tech firms that have gotten a boost from venture capital funds are the rapidly growing McData

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1987.

"Venture capital in Colorado has improved significantly in recent years," said Mark Dubovoy, a general partner in the state's largest venture capital firm, the Centennial Funds.

"The region has matured to a point where the quality of companies emerging is much higher than in prior years," Dubovoy said. "You have to develop an infrastructure, banks and a pool of qualified people. That process

takes a while."

Duane Pearsall, a general partner in Columbine Venture Fund Ltd., said Colorado is a strong venture capital state because of the dominance of the high-tech industry.

## Venture capitalism — doing it for the fun of it

By MICHELLE SCHNEIDER  
Rocky Mountain News Staff Writer

Neat stacks of business proposals — the visions of hopeful entrepreneurs — are piled on Duane Pearsall's carefully cluttered desk.

He has bad news for these candidates.

"I've already decided not to invest in these companies — I just have to figure out how to tell them that," said the gracious and dapper Pearsall, who — along with his partners at the Columbine Venture Fund Ltd. — can mean the difference between success and failure for the hundreds of startup companies in need of cash each year.

Columbine currently manages \$78 million of venture capital for institutional investors, deciding when and where to invest the money. The venture capital fund works out of the Tuscany building across from Fidler's Green.

"We feel we can spot a winner more easily now," said Pearsall, 67, an entrepreneur-turned-venture-capitalist. "We've all been



Pearsall

burned, so we know what to look for.

"There is no more fascinating business than venture capital," Pearsall added. "There is no better way to see business unfold, to see technology unfold."

Pearsall joined the tight circle of Colorado venture capitalists after he took Statitrol, a small firm with a mediocre future, and turned it into a \$16 million company that manufactured the country's first ionization smoke detectors for homes.

Pearsall and his small team of workers discovered the smoke alarm by accident, when they were trying to develop a better static control device. One of the techni-

cians was a chain smoker, and every time he got his lighted cigarette near the meter being used to measure the output of the static control, the meter would react.

"So, we converted into an ionization smoke detector," Pearsall said.

Ionization smoke alarms can detect smoke before it is visible to the human eye.

Pearsall didn't stop with manufacturing the alarms. He also manufactured a market for them.

For 2½ years, Pearsall courted the International Conference of Building Officials, which writes the Uniform Building Code adopted each year by hundreds of cities nationwide.

In 1973, the conference voted to require early-warning smoke detectors in all new homes and apartment complexes.

"Once that was approved, everybody and his brother got into the smoke-alarm business."

When he sold the company to St. Louis-based Emerson Electric in 1977, Statitrol had more than 50 competitors.

Pearsall spent many years championing the cause of small business — shuttling from Denver to Washington to testify before numerous congressional panels — and in 1976 was awarded the National Small Businessperson of the Year award from the Small Business Administration.

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and Exabyte, as well as Aspen Peripherals, Prisma, Cadnetix, Evans BioControl and MiniScribe.

Three key signs venture capitalists look for in up-and-coming companies are an exclusive product, potential for significant growth and a competent, experienced management team.

"We will absolutely not invest in companies that do not have some unique advantage over the competition," Dubovoy said. "If someone comes in and wants to start a chain of dry cleaners, they're immediately turned down. What we don't need is one more of something."

John Hill, a founding general partner of Hill, Carman, Kirby and Washing in Boulder, said companies without an experienced, successful management team won't make the first cut at his venture capital company.

"We really look for people with proven track records — people who have demonstrated very significant successes in their careers," he said.

Even with the careful screening,

venture capitalists know that roughly 30% of the companies in which they invest won't produce a dollar-for-dollar return, said Technology Funding's Pope.

But about one in 10 of the companies will be a bonanza — and that's where venture capitalists make money for their investors and themselves.

Sometimes, the venture capitalists lock horns with the entrepreneurs who formed the company, Pope said.

"Essentially, I'm marrying these companies, and I will do everything I can to make them successful," he said. "Sometimes, that may mean changing the company's direction, or changing the CEO."

The visionaries who start the company may — or may not — be able to move it from a small operation to a large one, Pope said.

"These people are doers — they're phenomenal at getting things done," he said. "But they may not be good managers, and managing 100 people is a lot different than managing 10."