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Entrepreneurial Edge

Financial Angels Band Together

By JAMES FLANIGAN

Two weeks ago, 40 successful businesspeople sat around a horseshoe table in a university lecture hall firing questions at four aspiring entrepreneurs. The aspirants were giving 20-minute presentations about their start-up companies to the Los Angeles chapter of Tech Coast Angels, a group that invests in new businesses.

Last Monday, in a hotel ballroom in Anaheim, a dozen eager entrepreneurs took part in an even more intense screening called the Fast Pitch competition of the Orange County chapter of Tech Coast Angels. In Fast Pitch, competitors have 60 seconds to give an account of their business and their plans in hopes of impressing venture capital funds, which typically put up bigger money than the Angels do.

Early in a company's financial life, after friends and family have been tapped for initial stakes, comes angel capital — investments from individuals, often successful entrepreneurs themselves, who back newcomers starting out as they once did on a smile and a shoeshine.

Their numbers and importance are growing. Last year Angels, along with some venture capital backers of start-ups, invested \$4.2 billion in more than 1,000 early-stage companies, according to Luis Villalobos, founder of Tech Coast Angels in Orange County. It is one of some 200 angel capital groups in the United States.

The movement was inspired by Band of Angels, the first formal angel group of a dozen Silicon Valley entrepreneurs gathered by Hans Severiens, a nuclear physicist and investor, to listen to aspiring entrepreneurs and possibly take a flier on their dreams. The Band, which first met in 1994, has backed household names like [Cisco Systems](#). It now has more than 100 members and still meets once a month to examine prospects.

It was advice from Mr. Severiens, who died in 2004, that encouraged Mr. Villalobos, a two-time successful entrepreneur and engineer, to persevere in forming Tech Coast Angels in 1997. At that time, he recalled, local business colleagues told him: " 'You're crazy. There are no venture investors or technology or entrepreneurs in Orange County, other than maybe in real estate.' "

Yet in 10 years, Tech Coast Angels has grown to 270 members in four locales — Orange County, Los Angeles, San Diego and Westlake/Santa Barbara — who have invested collectively \$85 million in 128 companies.

It's a sign of how attitudes toward risk have changed in little more than a decade that seasoned executives and financial managers now readily join groups to put \$200,000 to \$1 million behind people with ideas and a sense of adventure. Top corporate executives with outsize pay and perks may have been heroes of American business in bygone decades, but these days the entrepreneur is king or queen and praised for creating jobs and innovation in the American economy.

It helps that returns on angel investing have been quite attractive. "Angel investors typically earn 5 to 10 times their money in four to eight years," said Mr. Villalobos, citing a PricewaterhouseCoopers Money Tree study of venture capital. But the spread of angel investing attests also to the economy's encouragement of innovation, whether in high technology or everyday products.

For example, Richard Morganstern, a patent lawyer who is president of Los Angeles Tech Coast Angels, recalled the group's introduction to Language Weaver, a company that created a software product for

automatic translation at the [University of Southern California](#), with the aid of grants from the Defense Department. The Defense Advanced Research Projects Agency asked the group in 2000 to help Language Weaver become a commercial enterprise, Mr. Morganstern said.

"So we mentored the inventors and brought in executive talent," he said. "And then in 2002, after 9/11 increased demand for Middle Eastern languages, we invested along with other venture groups." Today, Language Weaver, much in use in Iraq, is adding corporate customers interested in translations to Chinese and 16 other languages.

In April, the Orange County Tech Coast Angels invested \$900,000 in YouMail, a company that adapts telephone greetings so that a group of selected callers receives a personalized message. The firm's original idea was that the service would appeal to sales agents and brokers eager to greet clients in a personal way, but Alex Quilici, YouMail's chief executive, said that his customers tended to be younger. "Generation Y that likes to personalize everything is spreading the use of our product," he said.

Angel capital groups, whose members invest their own money, pride themselves on rolling up their sleeves to help fledgling concerns. With each group member obliged to review four to eight companies a month and invest \$50,000 a year in some of them, Angels say they act like a "farm system" doing the due diligence on small companies that traditional venture capital funds no longer take time for.

One Angel network, the [Keiretsu Forum](#), founded seven years ago in Lafayette, Calif., east of San Francisco, has grown to 500 members in Colorado, Idaho and Washington as well as California. Keiretsu's size allows it to make larger investments, said Randy Williams, who started the group. (The name derives from the Japanese word for companies linked by cross-ownership of shares.)

Two years ago, for example, [Keiretsu](#) investors backed Earth Class Mail with \$1.75 million. The firm is a licensed mail receiver that can collect clients' mail, show it to them on e-mail and then, with customer approval, open the mail, scan it and show the contents on the e-mail screen. Employees traveling the world for multinational companies are customers, said the founder, Ron Wiener, "and also today's decentralized employees who work on their own and check in for conferences to rented office suites."

For all today's enthusiasm for entrepreneurs, angel capital is not easily handed out. Gerrie Adams, co-founder of Xengaru Fun Foods of Laguna Niguel, in Orange County, tells of competing in the Tech Coast Angels Fast Pitch Competition to get expansion capital. Ms. Adams and her business partner, Anuradha Prakash, had gained Angel backing and even [National Aeronautics and Space Administration](#) recognition for the low-cholesterol and fat content of their Pizzettos pizza chips.

But in 2005, Xengaru needed more money to expand nationally. Ms. Adams recalled facing 300 professional investors. "I was terrified," she said. "I had 59 seconds to get my point across." So Ms. Adams, a former sales and marketing manager, opened her pitch with alarming statistics about childhood obesity, noted that state governments were already banning unhealthy snacks, and then related quickly that schools loved Xengaru's low-fat pizza chips because they were healthy and children loved them because they taste good. She won the right to a potential \$500,000 in expansion money for Xengaru.

The next stage for angel capital? Not surprisingly, it's globalization. Keiretsu Forum opened a chapter in Beijing last year "and we will open next in Shanghai," Mr. Williams said. There appears to be a receptive audience for entrepreneurship in China.

Kevin Scanlon, a member of the Los Angeles Tech Coast Angels, returned recently from China, where government officials and businesspeople "were eager to learn how angel capital works and how we put our groups together," Mr. Scanlon said. "The angel capital idea could be our next great export."

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