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Startups step out of the shadows

Record cash - Venture capitalist investments in Oregon companies are their highest since the dot.com flame out

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The Oregonian

Oregon startups, long starved for attention from the venture capital community, are again feeling the love.

Ahead of the annual Venture Northwest conference in Portland today, venture capitalists have invested nearly \$200 million in Oregon companies this year. The infusion of money is a key indicator of investors' faith in the state's entrepreneurs, faith that has been on the wane for several years.

Oregon attracts far less investment, proportionally, than other West Coast states or the nation as a whole. But this year's haul is double what the state secured to this point last year, and it is more money than venture funds have pumped into Oregon companies in any full year since the dot-com craze flamed out.

"We're finally through the cycle," said Brent Bullock, a partner in the Perkins Coie law firm, who chaired the committee that selected startups to make presentations at Venture Northwest.

Burned by a spate of failed startups in 2001 and 2002, Bullock said depleted investment funds had little money to offer and little interest in exploring Oregon to find opportunities. Now, Bullock said, the state has several companies exploring collaborative technologies and social networking -- hot commodities given the success of Facebook, YouTube and MySpace, among others.

Those companies include AboutUs, one of 14 startups from Oregon and Washington presenting their business plans to prospective investors at today's venture conference. Portland-based AboutUs creates Web pages that offer information about sites users find on the Internet.

Using wiki technology, which permits site visitors to make changes to the Web page, AboutUs seeks to encourage online cooperation.

"Really exciting things can happen using interactive tools and collaborating," said Ray King, the company's founder and chief executive.

Portland, which has an active community of open source software developers and community-minded programmers, is a natural place for such technologies to take root, King said.

"Everyone I talk to is kind of jazzed about Oregon being a place where things are a little bit different," he said.

Venture capital is fertilizer for young companies, providing money so the businesses can grow before they start generating profits on their own. In exchange, venture investors expect outsized returns and a quick return on their money -- typically achieved within a few years by selling the company or by offering stock to the public.

Few Oregon companies have produced such big returns since 2000 (a notable exception is Portland-based Integra Telecom, which cashed out some of its initial backers in August with a \$245 million investment from private equity firm Warburg Pincus.)

This year, investors like the prospects of several new Oregon businesses. The top money-raisers are:

Ensequence Inc., which announced a \$40 million outside investment in April – the largest funding round in Oregon since the dot-com days. The downtown Portland company has been working quietly for years to get couch potatoes to interact with their TVs. Ensequence's breakthrough coincided with a contract to provide the technology for a system that displays several live Major League Baseball games simultaneously on a single computer.

MyStrands Inc., which makes social networking technology for sharing music and pop-culture preferences online. The Corvallis-based company, which also has offices in Barcelona, raised \$25 million from Spanish investors.

ProteoGenix Inc., a Beaverton startup spun out of the pediatrics department at Oregon Health & Science University. The company raised \$20 million in March to fund development of diagnostic tests for pregnancy complications.

Avnera Corp., a Beaverton company that disclosed last month that it raised \$42 million over three years to fund development of computer chips for wireless audio.

Despite this year's success, on a per capita basis Oregon still attracts venture capital at two-thirds the rate of the nation as a whole.

Given the number of engineers in the state at companies such as Intel and Hewlett-Packard Co., Oregon should be bringing in a lot more money, said Bill Campbell, partner at the Portland law firm Ater Wynne.

Campbell likens the cycles in the venture capital industry to a bathtub filling with water: Once the tub is full, funds normally directed to Bay Area companies spill over to Oregon and other venture capital backwaters.

Oregon's investment resurgence may be fleeting, Campbell said, because out-of-state investors will look closer to home as capital markets tighten up again.

"I don't expect it to last, because I don't see any of those folks opening offices here," said Campbell, who recently started a small Oregon investment fund with former Intel Capital chief John Miner.

Though Oregon is an attractive place to live, it's still a challenging place to start a company, said Dave Hersh, chief executive of Jive Software, which raised \$15 million in June. The state doesn't have a deep talent pool of senior managers or software developers with niche skills, he said.

So Hersh suggests Oregon startups build ties in the Silicon Valley or other economic hotspots to stay on top of their industry and in touch with prospective employees and investors.

"You can't be too Oregon-centric, or you'll be just another lifestyle company," he said. "Have at least a foot there. Have some connection to it."

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