Attachment A

The New York Times

February 3, 2009

Angels Flee From Tech Start-Ups

By CLAIRE CAIN MILLER and BRAD STONE

Technology entrepreneurs are having a devil of a time finding angels.

Angel investors are the optimistic financiers who give entrepreneurs their crucial first infusion of cash to bring their ideas to life. Now, in the midst of a punishing economic downturn that is sparing few companies, these patrons are cutting back on their bets and threatening the very foundation of the technology economy.

Unlike venture capitalists, angels invest small amounts of their own money — as little as $10,000 and usually less than $1 million — in very young companies. But like all investors, many angels suffered deep losses when the market plunged last fall.

That has left them skittish, investing in fewer technology start-ups and demanding more of those they do consider, leaving founders struggling to find money at the stage they need it most. The slowdown, entrepreneurs and investors say, could stunt the growth of new companies and have long-term effects on innovation.

For TwoSmartDogs, an Internet start-up in Los Angeles that was building an online hub for adult education classes, this sudden pullback was disastrous.

In 2007, the company raised $715,000 in its first round of angel financing from eight investors. When the founders approached current and new investors for more capital in September, they were met with silence.

"There was real interest," said Rose Ors, a founder of the company. "But the economic meltdown ended all conversation."

Unable to raise money, Ms. Ors and her partners decided to shut down the company and look for new jobs.

The angels who rejected them are not unusual. Half of the investors surveyed in November by the Angel Capital Association, the industry's trade group, said they invested less than they had predicted in 2008, and one-third said the number of deals and dollar amounts they invest would decrease again this year.

"Crashes make liquidity vanish, and venture investing — especially angel investing — runs on liquidity," said Steven McGeady, an angel investor and former executive at Intel. "When the markets go wonky, everyone sits on cash until the situation resolves itself. This makes capital hard to find, and if a company is caught unprepared or at the wrong time, that can be the end."

Many professional angels — those who invest as a full-time job, rather than as a side project — are still financing start-ups, if at a slower pace. They say the best opportunities come during downturns, as companies' valuations fall significantly. The median valuation of start-ups seeking angel financing fell 25 percent, to $3 million, from the third to the fourth quarter of 2008, according to Angelsoft, a Web service for angel investors and entrepreneurs.

"It's getting tougher for companies to raise money, but I think the good ones are still getting it done," said Ron Conway, a prominent professional angel investor in Silicon Valley who has invested in companies including Google and Facebook.

Yet unlike Mr. Conway, most angel investors are hobbyists — wealthy friends and relatives of entrepreneurs who invest as a way to diversify their portfolios — and they have been hit the hardest.

Dan Martin, an angel investor based in San Francisco who made millions when his family sold its aerospace contracting business in 2003, has invested several hundred thousand dollars of that in a handful of start-ups.

Last year, though, the Martin family's stock holdings lost close to 30 percent of their value. Now the Martins are shying away from risky angel investments and looking elsewhere for returns, including in undervalued public companies.

Investing in the stock market "smells to me like a much better opportunity than investing in the friend of a friend who wants to open a green Chuck E. Cheese restaurant or software to let people choose their dental implants," Mr. Martin said. "Those could be great ideas. But that versus Pfizer stock is an easy choice for us right now."

During normal economic times, several years after a start-up raises angel financing, it seeks larger amounts of money from venture capitalists to grow. But as venture capitalists also cut back on investments, many angels are wary of investing in a start-up without the assurance that the company will be able to raise more money to keep growing.

"A lot of companies view us to be the on-ramp to the venture capital superhighway, and a number of angels are less convinced that they should count on the superhighway this year," said John O. Huston, chairman of the Angel Capital Association.

Some angels are considering only low-cost companies that could become profitable without venture financing. Others are acting less like angels and more like venture capitalists, spending much more time than is typical advising companies, including taking seats on boards.

Aydin Senkut, a former Google employee who has invested in 40 companies, is serving on the board of one of his investments, ImageShack, a media hosting site, and spends two hours a week working at the start-up. "Where I can really help is building the next growth stage," he said.

Some angels who are still investing have become pickier, making demands of start-ups that they would not have a year ago. When David Levine started Wireless Environment, which makes motion-sensor light-emitting diode bulbs, in November 2006, he quickly raised $135,000 from family members and business school friends, with few questions asked.

The angel investors he met with this fall, though, were far more demanding. "I could not believe the complexity," he said. "For small investments compared to their net worth, they brought in financial advisers and a whole list of questions."

Some made impossible requests, like proof of patents, which take several years to acquire. Others would not even meet with him. "I think we have a very compelling business, we've hit all our milestones. I set up lunches with friends and they just keep putting them off," he said.

In December, he raised $400,000 in convertible debt from JumpStart, a nonprofit organization that makes early-stage investments in companies in northeast Ohio. Because it took so long to raise money, Wireless Environment has been forced to slow its growth, focusing on its technology at the expense of inventory and sales.

Some angel investors are putting less of their own money on the line by finding other people to invest with them. Co-investments increased in 2008, according to the Center for Venture Research, and half of those surveyed by the Angel Capital Association said they would increase co-investing with other angels this year.

Since Drew Smith retired as a venture capitalist three years ago, he has invested around $25,000 in each of four young companies, including a market research software start-up and one that makes technology to play Web videos on phones.

Now, he said, "I'm cutting back. For me to make an individual investment on the order of $25,000, it would have to be a really great opportunity." Instead, he is investing smaller portions alongside other investors. "I can reduce my bite size a little bit in terms of what goes into each investment, but still stay active."

The real impact will hit Silicon Valley two or three years down the road, said Mark Heesen, president of the National Venture Capital Association. That is when start-ups that receive angel financing today would typically turn to venture capitalists for their first round of institutional investments, known as a Series A.

"If we don't have angels, that hurts us. Where are we going to be getting our next Series A deals if those entrepreneurs aren't out there with the ability to move their idea forward?"

NORTHERN
COLORADO

Economic Development Corporation

January 12, 2009

On behalf of the Northern Colorado Economic Development Corporation, we support the Colorado Innovation Investment Tax Credit. We support this bill because:

- It is intended to increase capital investments by private "angel" investors in targeted early stage companies.
- Only qualified applicant companies would be high-potential startups in the clean energy, bioscience, IT or aerospace industries – these are some of the state's targeted industry clusters. This would position the state for growth in these key industries of the future.
- This will stimulate the creation of new businesses and high-wage primary jobs in the state's strategic technology industries
- Access to seed capital is one of the key challenges facing early stage technology companies, therefore is a tool for job creation and lessening the impact of the challenging recession this state is facing.
- This proposed state income tax credit incents private investors to invest in early stage companies.

From a Northern Colorado perspective, tech startups are also addressing the underemployment issue from the 2001-2002 tech bust, and companies like HP, Agilent and Advanced Energy are all commencing with new rounds of layoffs. This bill can help us proactively address the current recession and resulting layoffs.

Our organization, along with many others, stand ready to assist in any way to help our local businesses thrive and expand. Please let us know how we might be of assistance.

Best Regards,

Maury Dobbie

Maury Dobbie
President/CEO
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City of
Greeley
Colorado
Great From the Ground Up

January 15, 2009

To Whom It May Concern:

The City of Greeley is undertaking the development of a strategic economic development plan in which the creation of new primary jobs, through entrepreneurial development, focused on combining traditional agricultural business practices with emerging clean energy technology, being of utmost importance.

The favorable review and passage of a Colorado Innovation Tax Credit bill designed to increase the statewide pool of available seed capital for new business startups by enabling accredited investors to receive a state tax credit for investments in qualified early or second stage companies would greatly enhance our strategic economic development efforts.

Targeting such tax credits to Clean Energy, Renewable Energy, Agribusiness, Bioscience, and Information Technology would greatly enhance our ability to succeed in creating new primary job opportunities for Greeley and Northern Colorado residents.

Sincerely,

Bruce M. Biggi
Economic Development Manager

John Kefalas

From: Mark Forsyth [mark.forsyth@rmi2.org]

Sent: Monday, February 02, 2009 3:27 PM

To: John Kefalas; Doug Johnson; Kathy Kregel; Hoyle Curtis; Bradley J. Florin; WILLIAM COBB; Maury Dobbie; Su Hawk; Stephen Miller; Denise@dmbrownllc.com; smurchie@keiretsuforum.com

Subject: HB 1105 editorial in NCBR

Good editorial and endorsement of HB 1105 in today's issue of Northern Colorado Business Report.

-Mark

Venture tax break would fuel NoCo innovators
By staff

January 30, 2009 --
Colorado's legislature, thanks to a measure introduced by Larimer County Rep. John Kefalas, has a chance to ignite the innovation economy that so many people in our state believe can help lead us out of recession.

The Colorado Innovation Investment Tax Credit, House Bill 1105, would offer tax credits to investors in qualified startup companies and, if passed, will put the state among 18 others that have such mechanisms in place, including neighbors New Mexico and Kansas.

We believe that any policy measure that can steer capital to innovative new companies - the ones that can form the backbone of a diverse economy - should be adopted and we call for the passage of Kefalas' bill.

The tax credit, as described in the bill, is not a budget-buster, as some opponents claim. With a maximum amount of $3 million in any given tax year, the credit would amount to the tiniest sliver of Colorado's revenue pie. Yet, it has the potential to open spigots for other sources of capital for promising businesses.

Backers of the bill say data from other states that have implemented similar credits show that it can generate 12 to 15 times more money than the tax credit itself. States with the longest tax credit histories, and the most measurable results, have all reported sharp increases in venture capital investment.

The innovation credit is designed for private, "angel" investors. Each would be eligible for a 30 percent credit up to $100,000, paid in 15 percent installments over two years. Most other states offer credits ranging between 10 percent and 50 percent, with Hawaii providing a 100 percent investment credit.

Our region has a long and strong history of nurturing startups and watching them grow into major providers of high-paying, primary jobs. Advanced Energy Industries, while a leaner company today than in its late 1990s heyday, is an example. More recently, AVA Solar Inc. has driven its employment to about 135 in the two years since its three co-founders rolled it out of a Colorado State University laboratory.

Others wait in the wings, with their biggest challenge being access to capital. The Colorado Innovation Investment Tax Credit has the promise of solving that problem, and we urge members of the state's General Assembly to support it. In these times, it makes the best economic sense and offers the brightest potential.

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February 1, 2009

John Kefalas
House of Representatives
Colorado General Assembly
State of Colorado

Re: House Bill 1105

Dear John,

I applaud your leadership and strongly urge bipartisan support for House Bill 1105, a greatly needed forward-thinking measure to support the creation of new start-up industries and new jobs in the State of Colorado. Moreover, the overall cost of health care can be substantially reduced, and this can lead to the savings of many billions of dollars to the State and Nation.

About Dr. Douglas N. Ishii, A Concerned Citizen and Founder of Aurogen.
I live in Laporte and work in Fort Collins. My background training is in biochemistry (B.A., University of California, Berkeley), pharmacology (Ph.D., Stanford University Sch Medicine), and neurobiology (Postdoctoral Fellow, Stanford University Sch Medicine). I was an Associate Professor at the College of Physicians and Surgeons, Columbia University, NYC. I am now Professor of Biomedical Sciences at Colorado State University. I write as a concerned citizen, inventor, and Founder of Aurogen Inc., a biotechnology spin-out from Colorado State University. By way of more complete introduction, please find attached a biosketch.

Aurogen's Scientists Have Discovered New Drugs That Prevent Brain Shrinkage and Dementia In Alzheimer's (AD) and Other Brain Diseases

Alzheimer's Disease (AD) includes dementia in which learning/memory is so impaired that an individual becomes unable to dress, bathe, feed or otherwise care for him- or herself. Loved ones are no longer recognized. The capacity for complex reasoning, and ability to find one's way back home, can be lost. A great tragedy is the loss of personal dignity. AD is invariably lethal (average mortality 8 years from diagnosis) due to progressive brain atrophy (shrinkage) and degeneration. Current drugs do not meaningfully prevent the progression of AD, yet have a market exceeding $US 3 billion.

Dr. Ishii's laboratory has discovered that two key brain hormones progressively decline with aging, diabetes and AD (all conditions that are associated with brain shrinkage and dementia). AD is closely associated with diabetes, and diabetic patients have increased risk of AD. Proof-of-concept experiments show that replacing these hormones in the brain prevents impaired learning and memory as well as brain shrinkage in rats. A substantial amount of human safety data is available for these two hormones, but funding for clinical trials is still needed to demonstrate the new treatments can prevent the progression of dementia and brain shrinkage in AD patients. For the first time it may be possible to prevent the progression of AD. The scientific discoveries in Dr. Ishii's laboratory has caught the attention of the world press (Denver Post, Coloradoan, ABC News, Forbes, New York Times, Los Angelos Times, Der Spiegel, etc.). The treatments may be useful in other brain diseases with brain atrophy and dementia, including multiple sclerosis and Parkinson's disease. Patents have already issued in Germany, Spain, France, UK, Italy, Canada and Australia and other patent applications are pending. These patents provide the basis for developing a potential multibillion dollar company and products to treat AD, MS and Parkinson's. Aurogen's Executive Summary for its lead treatment is attached.

<u>The Cost of House Bill 1105 is Tiny Compared To Billions of Dollars in Cost Savings to Families, State and Nation</u>

Half of all nursing home residents have dementia. Nursing home care may average $36-70,000 per year depending on level of care and location. There are approximately 12 million AD patients in the USA, UK, France, Germany, Italy, Spain and Japan and this number is expected to triple by year 2050 due to the increasing average population age in these nations. These numbers may rise more quickly then initially projected, because diabetes is now shown to be a risk factor, and there are 20 million diabetic patients in the USA. The annual USA care cost (direct and indirect) for 4.5 million AD patients is $100 billion. Unless new treatments are found soon, the expected increase in cost will create a difficult economic burden on families in Colorado as well as devastate public health budgets in the State, Nation and other developed countries. It should be considered that as the baby boomers advance in age there is likely to be an acute shortage of trained health care professionals and geriatric nursing facilities.

The development of new drug treatments for AD has the potential for saving the State and Nation literally billions of health care dollars. Aurogen's new drugs have the potential to slow or prevent the progression of AD at a fraction of the cost of current care. By keeping patients mentally functional, they can continue to lead productive lives and remain with loved ones. The savings in preventing emotional pain and suffering to the families in Colorado is incalculable.

<u>Critical Need for House Bill 1105</u>

Despite the important scientific discoveries for the prevention of AD, support from House Bill 1005 is critically needed. More than $6 million in research grants from the National Institutes of Health and the Centers for Disease Control have been received to support the scientific discoveries on which Aurogen's multiple patents are based. Technology transfer grants have been received from the federal government ($100,000) and State of Colorado ($200,000). Aurogen is incorporated in Colorado. These research dollars have already created new jobs for various postdoctoral fellows, graduate students and research associates. They have also provided advanced training opportunities in biotechnology for many undergraduate students, including women and minority students.

One must consider the way that the pharmaceutical industry operates. Large pharmaceutical companies have down-loaded R&D risk to biotechnology companies, such as Aurogen. Because there are more than 4,000 biotechnology companies, the strategy of pharmaceutical companies is to wait until biotechnology companies have raised the cash and conducted proof-of-concept phase II clinical trials. If trials are positive, pharmaceutical companies can license or buy projects at a cost less than they can develop them in-house and at greatly reduced risk.

Colorado is far from the capital centers of the East and West Coast, and it is more difficult to attract seed-funding to start-up new biotechnology companies. There are only a half-dozen Colorado-based venture capital companies dedicated to seeding the development of new drugs, and their average investment is generally under $2 million whereas the average biotech start-up requires $10-20 million. Private angel investors are a critical source of capital for start-up biotechnology companies such as Aurogen, and angel investments are generally needed before strong interest by venture capital companies.

Consequently, if Aurogen and other biotechnology companies in Colorado are unable to raise sufficient capital to conduct R&D through phase II clinical trials their projects may die, new jobs will not be created, and new treatment for diseases such as AD will not become a reality. There is a critical need for additional investment capital in Colorado, and House Bill 1105 would reduce risk to investors by granting a 30% state tax credit. Aurogen has raised investment dollars from local angel investors, but Fort Collins is small and there is a need to attract additional investments from outside of this community. HB1105 would make it much easier to attract investments.

<u>House Bill 1105 Is Non-partisan and Important to the State and Nation</u>.

Support for this non-partisan bill is important to keeping families intact in the State of Colorado and the Nation. It is important for reducing future health care costs for families, the State and Nation. It is further important for creating new high quality and high paying jobs locally. A new billion dollar industry can create hundreds of new jobs and increase the tax base. It can also create new training and educational opportunities for students in the field of biotechnology. I urge bipartisan support for this critical bill that provides for the orderly prosperity and growth of our great State. Thank you for your kind consideration.

Sincerely,

Doug Ishii

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