Innovation™ Capital Advisors, LLC

InFront

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First State Innovations™ Newsletter is Now InFront™

Newsletter Name Licensed to New Organization

The Delaware Innovation Fund has licensed the name of its newsletter *First State Innovation*™ to a new non-profit organization which will bear that name. The newsletter was launched in 1995 to report on the activities of the DIF.

InFront™ will report on the broader activities of the DIF's management company called Innovation Capital Advisors, LLC, and will report on the activities of the Delaware Innovation Fund, Innovation Ventures, LP, a Mid-Atlantic focused venture capital fund, and Early Stage East®, a venture capital conference founded by members of the management company.

David Freschman, Managing Principal of ICA, noted "The Delaware Innovation Fund is proud to support this new organization through the licensing of its name of its newsletter. We believe that First State Innovation is a great addition to our efforts in creating a nurturing, supportive and thriving entrepreneurial environment to the State of Delaware and the surrounding region.. We look forward to working closely and collaboratively with First State Innovation and congratulate them on their launch."

Ernest J. Dianastasis, Chairman of First State Innovation and Managing Director of CAI, a leading Information Technology consulting firm located in Wilmington, Delaware noted "First State Innovation wishes to thank the Delaware Innovation Fund for the licensing of its newsletter name. Such a name allows First State Innovation to clearly present it purpose and mission within the State of Delaware. The DIF has been a wonderful source of support, innovation and financing for our entrepreneurs and we are excited in working with the DIF in further attracting venture capital and angel funds to the State of Delaware."

Innovation Ventures Announces First Two Investments

Innovation Ventures, LP is pleased to announce investments in Nanocomp Technologies and Business Intelligence (BI) International.

Nanocomp Technologies is the world leader in the research and production of very long carbon nanotube fibers, yarns, and felts. Innovation Ventures participated in Nanocomp's $1.5 million Series A venture investment round.

Peter Antoinette, Chief Executive Officer of Nanocomp Technologies, envisions broad applications for their nanotubes in a wide variety of applications. "Carbon nanotubes are 100 times stronger than steel, pound for pound, and conduct electricity as well as

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Delaware Innovation Fund Announces UD Scholarship Renewal

The Delaware Innovation Fund is please to announce that it is renewing the Scott K. Jones/DIF Entrepreneurial Scholarship at the University of Delaware. This scholarship is awarded based on a demonstrated interest and passion for pursing entrepreneurial and venture capital studies.

The 2006 recipients of the scholarship were announced at Honors Day at the Lerner School of Business at the University of Delaware. The 2006 recipients were:

Ross Epstein, an undergraduate finance major/ management information system minor from Succasuma New Jersey. In 2004, Ross formed RE Computer Consulting LLC. RE Computer Consulting specializes in small business systems and emphasizes hands-on customer service. The company is a Dell Value-added reseller and a Microsoft Partner. Ross is planning to expand the business.

Sandra A.H. Burton, an MBA student concentrating in new venture creation. Sandra is President of Green Plains Energy, Inc., which develops and promotes the use of clean energy technologies. Sandra holds a BS in Economics from University of Utah. Her company's current initiatives include developing a proposal for the creation of an offshore wind power generation facility off of Delaware's Coast. Her work has focused on the development of rules and regulations to make the financing of clean energy projects more attractive to the private sector.

Technology Corner

— Walt Chiquoine

New ideas and technologies are fine, but investors have a fondness for innovations that lead to real products in real markets. Many times, the innovations behind early-stage companies are difficult to assess. Paradoxically, the more disruptive the technology, the more it is perceived to have greater potential (to displace a current product or create an entirely new market, for example). Yet without any prior history, the fate of such products becomes anyone's guess.

Venture analysis requires us to look at new products in the light of broad macro trends, such as shifts in demographics or changes in energy costs. Conversely, those same broad trends tend to be the drivers for innovation itself. One trend that clearly impacts the development of materials and technologies is embodied in what has been called Moore's Law: the number of transistors in an integrated circuit (IC) chip doubles every 24 months*.

From 1971 through today, Moore's Law has proven itself true. But as the transistors on a chip become smaller and smaller, two significant problems arise. First, manufacturers must devise methods for creating extremely small, almost nanoscale, circuits on the chip. Second, designers must cope with higher current density and greater heat generation in a shrinking space. Many start-up companies are tackling these problems with new materials and technologies, often derived from academic research.

The need to make nanoscale features is driving significant improvements in photolithography. Companies are developing new materials for photomasks, new chip structures that are easier to etch, and techniques such as ink-jet printing that can replace the photolithography itself. The problem of heat generation is being met with new, higher-temperature materials such as silicon carbide for substrates, new bonding materials that are dimensionally stable and transfer heat better, and new designs for the IC chips and heat sinks themselves.

So our awareness and confidence in macro trends serves us as an important (but not exclusive) guide to new business. ICA continues to evaluate companies in this space with the knowledge that a promising new material or technology can find a ready home in the market, when coupled with good management, a sound marketing plan, and the right amount of equity funding.

** from Gordon E. Moore, co-founder of Intel.*

Raising Institutional Investment?

Avoid the Seven Deadly Sins Commonly Committed by Start-Ups

— Patrick J. Foley, Ph.D., Managing Principal

This article is the first in a series of seven, each one dealing with a fatal error when a technology company approaches early stage venture capital firms to obtain funding.

HAIRY FINANCIALS

When reviewing a business plan, most venture firms read the executive summary, and if that excites their interest, go directly to the financials and management resumes. If the financials are not clean and easily understood, early stage investors may find it is easier to move to the next deal than spend a lot of time and fees to sorting it out. Some considerations:

- **P&L**: A high cash burn rate, especially in salaries. Entrepreneurs should have a significant equity stake in the company, which should make up for lower initial salaries. Investors want you to get compensated very well, but later, when the company is sold. This trait is especially seen in potential entrepreneurs coming out of large companies who expect their salary to stay substantially the same, so be aware of this issue.
- “**Hockey stick” forecasts**: Sales forecasts should be built from the ground up, i.e. customer A will buy $X of product in year 1, customer B will buy $Y in year 1, etc. Forecasts based on “the market is X zillion dollars, and if we get only 1%, we will be a million dollar company” don’t cut it.
- **Non-credible use of cash**: It is much easier to incur expenses than revenues, so we want to see a detailed spend plan and a significant cushion in cash on hand at all times to account for revenue delays, unanticipated expenses and to stay in synch with revenue growth.
- **Balance Sheet**: Low cash on hand means a desperate company unable to manage its costs or one that has had little success in fund raising. High receivables relative to sales are also bad news.
- **High debt**: New investment dollars should be used to grow the enterprise and not pay down debt. Efforts to clean up debt prior to fundraising should be taken. One strategy could be to convert a portion to equity.
- **Cap table**: A large number of different types and classes of investors can be a challenging for a new investor. Mixing friends and family, angels, corporations, economic development agencies, etc. can prove difficult as they may have different motivations. Particularly difficult is a large group of small and unsophisticated investors, who may wish to have a say in running the business, and who may have unrealistic views of the enterprise value. If you are in that situation, speak to your counsel and one strategy to consider is establishing a single separate entity to combine all these investors. This gives the new investor one investor entity to deal with, and saves them from having to “herd cats.”

In summary, the cleaner and simpler the financials, the less trouble to review the company and the more likely it is to investigate and understand the business opportunity.

Next issue: *The Second Deadly Sin*

Assuming a great technology will lead to a great business opportunity and a great company.

Innovation Ventures Announces First Two Investments

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copper. We expect our fiber nanotubes to have a major impact in the manufacture of composite materials for the armor, aircraft, and automotive industries, as well as in batteries, fuel cells, and electronic devices, among many other uses, many of which have yet to be conceived," says Antoinette.

Dr. David Lashmore, Nanocomp Technologies' Chief Technology Officer, and Mr. Joseph Brown originally developed the technology in October of 2003 in their roles as scientists employed by Synergy Innovations Inc., a Lebanon, NH based technology development company. Since then, the technology has been advanced via R&D contracts with the Office of Naval Research and the U.S. Army.

According to Dr. Robert Dean, President of Synergy Innovations and Chairman of Nanocomp Technologies, "This investment by Innovation Ventures and others will enable Nanocomp to move its products from the semi-works to the marketplace to protect American servicemen and women, as well as serve the broader commercial market."

Business Intelligence International is a global expert in providing the framework, structure and analytics that allow businesses to properly manage risk and performance. Innovation Ventures and Zon Capital co-led a $2 million Series A venture investment round in BI International.

As the SEC and the Public Company Accounting Oversight Board (PCAOB) continue to search for a cost-benefit balance for Section 404 and 302 compliance, smaller public companies are still expected to comply with the law, yet face the dilemma of limited resources and know-how. To that end, BI International is the first Software-as-as-Service (SaaS) player to focus on the emerging governance, risk and compliance mid-market space, notably with its Aline4SOX product, which is both affordable and easy to use.

BI International CEO Roland Mosimann said the investment will allow BI to vigorously promote Aline4SOX. "Supplementing our already strong balance sheet, this additional capital will be used to continue the growth of the firm's global sales organization, support the rapid adoption of our products within the current customer base and to continue investing in software development," he said, adding, "we are also excited about the opportunity to re-locate our primary headquarters to Wilmington to work more closely with the many firms that base their corporate services there".

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