WPI Venture Forum

To inspire and facilitate technology-based entrepreneurship

Vantage

January 2009
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THIS MONTH'S MEETING

Tuesday, January 13, 2009

WPI, Worcester
Campus Center Odeum

Networking: 5:30 – 6:30 p.m.
Meeting: 6:30 – 9:00 p.m.

$15.00 members
$25.00 non-members

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contents

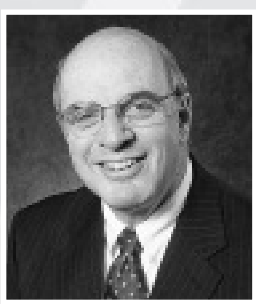
The WPI Venture Forum is a program of the Collaborative for Entrepreneurship & Innovation

WPI

Fund It! Business Life Cycle Financing

How is today's environment for raising capital? Where should entrepreneurs seek funding? Can start-ups raise money without superstar status? Three financing experts will answer these questions and more at the January 13th meeting of the WPI Venture Forum.

No matter what stage their business is in, entrepreneurs may face financing concerns. Growing a business requires capital, and even a stable business looks to financing sources to build a strong capital foundation.



JERRY SCHAUFELD

Jerry Schaufeld, Professor of Entrepreneurship at WPI and business consultant, will address the topic of **finding the money for start-up and growth**. Schaufeld has both broad and deep knowledge of start-up financing. Co-founder of the Cherrystone Angels in Rhode Island, he has served as Director of the Rhode Island Slater Fund, is Past President and CEO of Mass Ventures, and is a member of the Launch Pad Angel Group in Wellesley. Schaufeld is also an advisor to the recently formed Boynton Angels group, a charter member of the national Angel Capital Association (ACA), and a founder and participant in the regional New England Angels ACA group.

He has held a variety of executive roles, including international sales and marketing, finance, engineering, manufacturing, and operations. Founder and the first chairman of the MIT Enterprise Forum — a resource group for early stage companies with global outreach, Schaufeld also founded the Incus Group, a business acquisition and resource organization. He has a graduate engineering degree, an MBA and a professional engineer's license.

ABBOTT WEISS

Presenter Dr. Abbott Weiss will discuss **turnaround funding**. Currently an independent consultant and a Senior Lecturer at MIT, Weiss is also a Visiting Senior Lecturer at Simmons College School of Management. Leveraging his background, Weiss will discuss financial challenges facing distressed organizations. For 35 years, he was an operating executive and consultant in logistics and supply chain management. Throughout his career Weiss has been on the leading edge of supply chain thinking and practice, designing and executing powerful business solutions integrating global transportation, logistics, customer services, order fulfillment, manufacturing, forecasting, planning, and materials systems.

Continued on page 6

Letter from the Chair

Funding Each Growth Stage


Mitchell Sanders

Businesses that grow from seed capital to a successful $100 million exit are as prized as birch trees with outstanding bark characteristics and graceful, delicate foliage. During every growth phase, capital enables the company to make sound business decisions that allow the tree to flourish and build a deep and healthy root system to support the tree's future development.

At the seed stage, often a small amount of capital is required from the friends and family or angels, often known as the three Fs – friends, family and fabulous people – to prove that the technology is possible and that the business model is sound.

Once the concept is proven and potential partners validate the unmet need, more capital is required to allow for proper maturation. Without the new source of capital there is slow or no growth. Not all capital at this stage of the company's growth is the same. Smart capital comes with seasoned angels or VCs that can help direct the company and prevent it from getting burned by a corporate partner or diluted by missing milestones or using capital during an economic drought.

At the expansion stage, it is time for the company to bear fruit. Another dose of capital is required to pay for clinical studies, regulatory approval, manufacturing, sales and marketing expenses, and product launch.

At each phase in the company's growth, the management team needs to adapt to new challenges and make critical decisions that could require transplanting a seasoned CEO to take the business to the next level.

Please bring your green thumb and join us on January 13th for the monthly WPI Venture Forum program "Fund It! Raising Money through the Entire Life Cycle of the Business." Learn from seasoned entrepreneurs and investors the best way to cultivate your business for growth and successful exit.

Sincerely,
Mitchell Sanders '88, PhD '92
Chair, WPI Venture Forum
Executive Vice President and Founder, ECI Biotech

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Outsource to Grow Your Business

Continued from page 5

Dr. Ted Acworth, MBA, PhD, founder and CEO of Artaic, LLC

build the first robot, they collaborated with Elm Electrical, a production equipment, designer and integrator in Westfield, Massachusetts. Elm has the expertise and personnel to be an excellent outsource partner. Acworth said they are truly industrial artists, differentiated by being cheaper and faster, with full service.

The tile market is huge, $70 billion globally, but mostly in solid color tiles and is 70 percent consumer. Artaic's competition is further up the market pyramid — custom patterns hand made by mosaic artists. This is a $250 million market, with customers in the Middle East, Asia, and Russia consuming the most mosaics.

Distribution is an issue that Acworth sought advice about. To reach the consumer market directly, he would need a showroom in every town in America. Artaic has an OEM deal as an outsourced manufacturer with an existing larger company that already has a distribution partner.

They have a three- to five-year sales plan and three sales strategies: direct to architects and designers, to OEMs and to distributors. Artaic has a certain amount of investment today, but depending upon revenue, growth can be modest or aggressive. They have exit strategies and industry comparables for a sense of what price they can exit, in an IPO or through an acquisition.

Acworth concluded that at the core, Artaic offers a disruptive innovative technology. Not just robots, it is a systems engineering company that can move custom mosaics through the pipeline quickly. They can be a mass customization company with large long-term opportunities as well as practical short-term opportunities.

Panelist Richard Gilles asked the first question. An entrepreneur, designer and a local town official with a focus on sustainability and market transformation, Gilles inquired about operating in the current economic environment. In response, Acworth said they want to make sure they are still around in a year, so he wants to raise money and grow his business. Acworth is positioning Artaic as an affordable luxury brand, and ready to deliver its product extremely quickly.

Panelist and keynote speaker Vaibhav Nalwaya wanted to know if the business is scalable. Wouldn't it be possible for someone to copy this process? Acworth had reviewed this possibility during his due diligence. The technology is not easy; it is not cutting-edge science but it is sophisticated engineering. In addition, Acworth has aggressive IP positioning.

Panelist Brigid Oliveri Siegel, partner, Polachi & Company, Inc., and executive board member for the WPI Venture Forum, addressed Acworth's interest in finding a VP of sales. She advised him to focus on which is most important – experience with a disruptive technology or someone who understands the market in distribution and in architectural design.

The panelists concluded that investors want scalability. They recommended Acworth outsource sales and marketing and take in orders as a mass manufacturer, but concentrate on selling to businesses rather than consumers, for the growth in a timeframe that venture capitalists seek.

ARM Azad, PhD, MBA is President & CEO of Prospeed in Nashua, NH. He can be reached at armazad@prospeed.net.

Fund It! Business Life Cycle Financing

Continued from page 1

His extensive operating background includes VP, Consulting at i2 Technologies, where he led a professional services business for this leading provider of advanced supply chain software; VP, Worldwide Logistics for Polaroid, designing and implementing a new supply chain strategy; and senior management roles at Digital Equipment Corporation. Weiss holds a Doctor of Business Administration in logistics from Harvard Business School and an MS degree in management from MIT. His bachelor's degree is in Naval Architecture & Marine Engineering from the Webb Institute.

VC screening and due diligence will be the subject for Paul Tu, Principal at Massachusetts Technology Development Corporation (MTDC), a leading edge venture capital firm that invests in the start-up and expansion of early-stage technology companies operating in Massachusetts. At MTDC, Tu is responsible for reviewing business plans, interviewing entrepreneurs, identifying marketable technologies, and making new and follow-on equity investments.

Tu has more than 18 years of experience in operating and managing businesses, and investing in and financing high-technology companies. Prior to joining MTDC in 1999, he served as Vice President, Commercial Lending Division, Eastern Bank and Assistant Vice President in the Business Banking Group at Fleet Bank (now Bank of America).

Paul Tu

Currently, he serves as a member of the Board of Directors of Ntirety, Inc. and uTest, Inc., and as a Board Observer of Courion, Inc., PermissionTV, Inc., and Polatis, Inc. Tu led MTDC's successful exit from Inceptor, Inc., which was acquired by Idearc Media. Tu earned an MBA from Suffolk University and a BA from Boston University.

Solve Problems with WPI MBAs

Graduate students in the WPI MBA Program must complete a final project that ties together various business functions such as marketing, finance or accounting, and operations to address a real-world problem. Working individually or in teams of up to five people, students spend the semester defining the problem, conducting their analyses, developing and screening their alternatives, and framing their recommendations and implementation plans.

One organization avoided a money losing investment of $10 million as a result of a WPI MBA project! Another based its entire reorganization plan around the team's recommendations. To discuss project sponsorship, please contact McRae C. Banks, Management Department Head, at 508-831-5218 or macb@wpi.edu.

WPI Venture Forum Radio Show

Are you looking for an entertaining, educational and interesting way to spend a couple of hours on a Saturday evening? Tune into the WPI Venture Forum radio show, every Saturday* from 5 to 7 pm on WTAG 580 AM or 94.9 FM to hear interviews with area business professionals from a variety of industries. Call 508.755.0058 to participate.

*Sports events or late-breaking news stories may occasionally pre-empt the regularly scheduled program.

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Q&A on Federal Reserve Plans
with Bank of America Chief Economist Mickey Levy, PhD

Levy answers questions about the Federal Reserve plans to buy housing-related debt and support the issuance of new securities backed by student, auto, credit card and small business loans.

Why is the Federal Reserve now announcing these new, large liquidity plans?

The Federal Reserve has been increasingly concerned about the deepening recession and credit crisis. In particular, the biggest risk is of a sustained contraction in the availability of credit, which could lead to prolonged recession and possible deflation, and ongoing decline in general price levels. This combination could lead to an even more serious deterioration of economic conditions, in part by increasing the real costs of repaying debts.

Despite the Fed's interest rate reductions, the massive liquidity provisions by the Fed and Treasury, and capital infusions into financial institutions, the credit channels that normally support household and business spending are still clogged. Many of our credit markets, including those that trade debt securities backed by mortgages, auto loans, credit cards, student and small business loans, remain largely dysfunctional.

So the Fed took the aggressive step of shifting to "quantitative easing" and providing additional liquidity to support auto, credit card and small business debt.

What is "quantitative easing"?

Normally the Fed conducts monetary policy by setting an interest rate target (the Federal Funds rate). Through buying and selling U.S. Treasury debt securities on the open market, the Fed keeps interest rates at the targeted level. This leads to fluctuations in monetary growth, which generates aggregate demand in the economy.

Recently, as the financial crisis intensified, the Fed's dramatically lower rates had proved ineffective and the institutional mortgage market was stuck.

The Fed shifted gears. It announced that it would effectively "abandon" interest rate targeting, and through open market purchases of securities, it would quantitatively ease the money stock. While it had been moving in this direction through its various liquidity facilities, this is the first time ever that the Fed has explicitly announced a shift to quantitative easing.

Moreover, in a significant departure from prior open market operations, the Fed announced it would implement quantitative easing through the purchase of government agency bonds and debt (rather than U.S. Treasuries).

How do the new programs address liquidity and lending?

By purchasing both the direct obligations and the mortgage-backed securities now on the balance sheets of the government's housing related agencies — Fannie Mae, Freddie Mac and the Federal Home Loan Banks — the Fed expects to reduce mortgage rates to boost housing markets and help improve the financial markets more generally.

This $600 billion initiative of "quantitative easing" addresses two issues head on. First, by reflating — increasing money and pumping liquidity into the system — the Fed significantly lowers the probability of prolonged recession and deflation. Second, this initiative is explicitly aimed at loosening up the mortgage market by purchasing government agency debt and mortgage-backed securities. Think of turbocharged monetary easing aimed directly at reducing mortgage rates.

Through the Term Asset-Backed Securities Loan Facility (TALF), the Federal Reserve aims to meet the credit needs of households and small businesses by supporting the issuance of securities backed by student loans, auto loans, credit card loans and loans guaranteed by the Small Business Administration. In this program the Federal Reserve will lend up to $200 billion to holders of highly rated asset-backed securities backed by new or recently originated consumer and small business loans. The U.S. Treasury will provide $20 billion of the $200 billion in credit protection, from the Troubled Assets Relief Program (TARP).

What can we expect from these new programs?

The initial financial response has been dramatic. Interest rates have fallen sharply and the decline in mortgage rates has been even more significant. Other asset-backed securities have loosened. Once the TALF is under way we should also see more new issues in the credit markets that trade securities backed by other consumer debt. Those markets should also function more normally.

Mortgage applications are expected to jump in response to the lower rates and these programs are also expected to eventually support lending to small businesses.

As chief economist for Bank of America, Mickey D. Levy, PhD analyzes and forecasts national and international economic performance and financial market behavior, and conducts research on monetary and fiscal policies.

A Look at December's Meeting

Outsource to

by ARM Azad, PhD, MBA

Vaibhav Nalwaya, Principal, Key Venture Partners (KVP)

WPI Venture Forum

Calendar of Events

JANUARY 13
Raising Money through the Entire Business Life Cycle

FEBRUARY 10
Market It and Sell It — or Die!

MARCH 10
Finding the Right People for Each Enterprise Stage

APRIL 14
Transition, Exits and the Future

MAY 12
War Stories and Lessons Learned

JUNE 9
Five-Minute Elevator Pitch Contest

On Tuesday, December 9, 2008 the WPI Venture Forum presentation focused on outsourcing to scale up and grow. Co-moderator Raghu Nandan, Founder & President, Soltrix Technology Solutions introduced the keynote speaker and panelist, Vaibhav Nalwaya, Principal, Key Venture Partners (KVP).

Nalwaya discussed the methodology to use when outsourcing – under contract with an outside supplier – and when off-shoring – outside the country – for growth. In terms of market size, the 2007 outsourcing market far exceeds the offshore market, $173 billion versus $24 billion.

"There is a good way and a bad way to outsource," he said. The depth of the partnership with the outsourcing company determines the value of the engagement, he pointed out — greater depth yields a higher value. "So why outsource?" When seeking:

- Expertise in specific technology/business process;
- Efficient time-to-market/time-to-execution;
- A way to transform a fixed expense to variable;
- Non-core function that is not a competitive advantage to provide; and
- Cost advantage, which is never the first consideration.

He cited as case studies two KVP portfolio companies who use outsourcing, and two who provide outsource services:

Axentis — Strategic objective: lower operating expenses. Off-shored to captive unit in India and outcome was successful.

AirBand — Strategic objective: fill the CFO role. Hired local firm to provide CFO and controller services to lower operating expenses. Outcome was not successful, due to inability to hold someone in-house accountable for success or failure of outsourced service and reduced visibility of critical financial issues to the board.

OpSource — Provides outsourced technology operations for SaaS companies. Selling points and customer value proposition: software companies should focus on core competency of developing software; many find it hard to transition to services-based model. Fixed infrastructure costs become variable, leading to improved gross margins in early years, with successful outcome.

TechBooks — Provides outsourced data conversion services from off-line to XML-enabled format in off-shore delivery model. Selling points and customer value proposition: customer should focus on its competitive advantage that lies in the content, not in the process to transform that content which should be outsourced; cost savings due to off-shore delivery model and scale, and conversion in shorter time, using technology-enabled processes. Outcome was successful — healthy top-line growth followed by successful exit.

Nalwaya offered a few lessons he's learned:

- **Fit:** Outsourcing isn't always the right answer
- **Factor:** Need in-house accountability to make it work
- **Form:** Need to define the function being outsourced (if it didn't work in the first place, outsourcing isn't going to fix it)
- **Function:** Better chance of success, where deep/process domain expertise is required.

And he shared this advice for those who offer outsource services:

- Differentiate yourself, especially in research and development and quality assurance business

Grow Your Business

Panelists (from left) Vaibhav Nalwaya, Richard Gilles and Brigid Oliveri Siegel listen to the case presentation.

- Have an appreciation of the cultural divide between the parties
- The best companies invest in hiring and retaining people.

Case Presentation:

Artaic, LLC

Dr. Ted Acworth, MBA, PhD was introduced by Richard O'Brien, WPI Venture Forum program co-moderator and program chair. Founder and CEO of Artaic, LLC, Acworth started the company in 2007 with a deep appreciation for design and the art of mosaic. A scientist and engineer by trade, as well as an award-winning entrepreneur, Acworth has been developing and commercializing innovative technology for twenty years.

Artaic is developing a unique design and production technology that aims to revolutionize the industry using the technical expertise in ultra-precision metrology systems design.

Mosaic is art made from tiny tiles of materials, typically glass or marble, cut to fit into a mosaic design. Labor makes up 25 to 50 percent of the cost. Glass and marble suppliers are quite limited. The process is complicated, entailing finding the artist, fabricator, shipper, and finally, an installer. Marble can cost about $350 per square foot. Artaic's solution is a high speed robotics technology that can produce one square foot in 12 minutes compared to 2.5 hours manually for the competition.

The company's value proposition is the creation of an innovative mosaic brought to a new level, a new art form that is both more sophisticated and more accessible for consumers. A fast, flexible provider, it offers a full service solution at client locations, then fabricates and ships the mosaic work. Artaic's current projects include an 85-square-foot, LED-backlit mosaic as the center piece of an Italian restaurant, a high-end residential kitchen with 45 sq. ft. of custom mosaic, and a 500-sq. ft., three-story lobby mosaic that was completed in one week versus five to six months for the competition.

Due to the current capital crunch, Acworth has been able to accomplish things with very scarce resources, for strategic as well as financial reasons. This means in-sourcing, out-sourcing, and deals with partners and customers. Tile manufacturing is expensive in the United States compared with India and China, but outsourcing to those countries can be risky and slow to ship product back. Tile is very heavy, too expensive to air freight, and it is easily broken.

The Boston-based company employs seven people, plus in- and out-sourced consultants and advisors, including five artists for commissioned work. There is a patent pending and several other filings planned for 2009 on the robotic fabrication and computer aided design they developed. To

Continued on page 7

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