

OCTOBER 1999

Venture Capital

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ANALYSIS OF THE PRIVATE EQUITY MARKETS

Embrace VC-Like Role

REVIEW

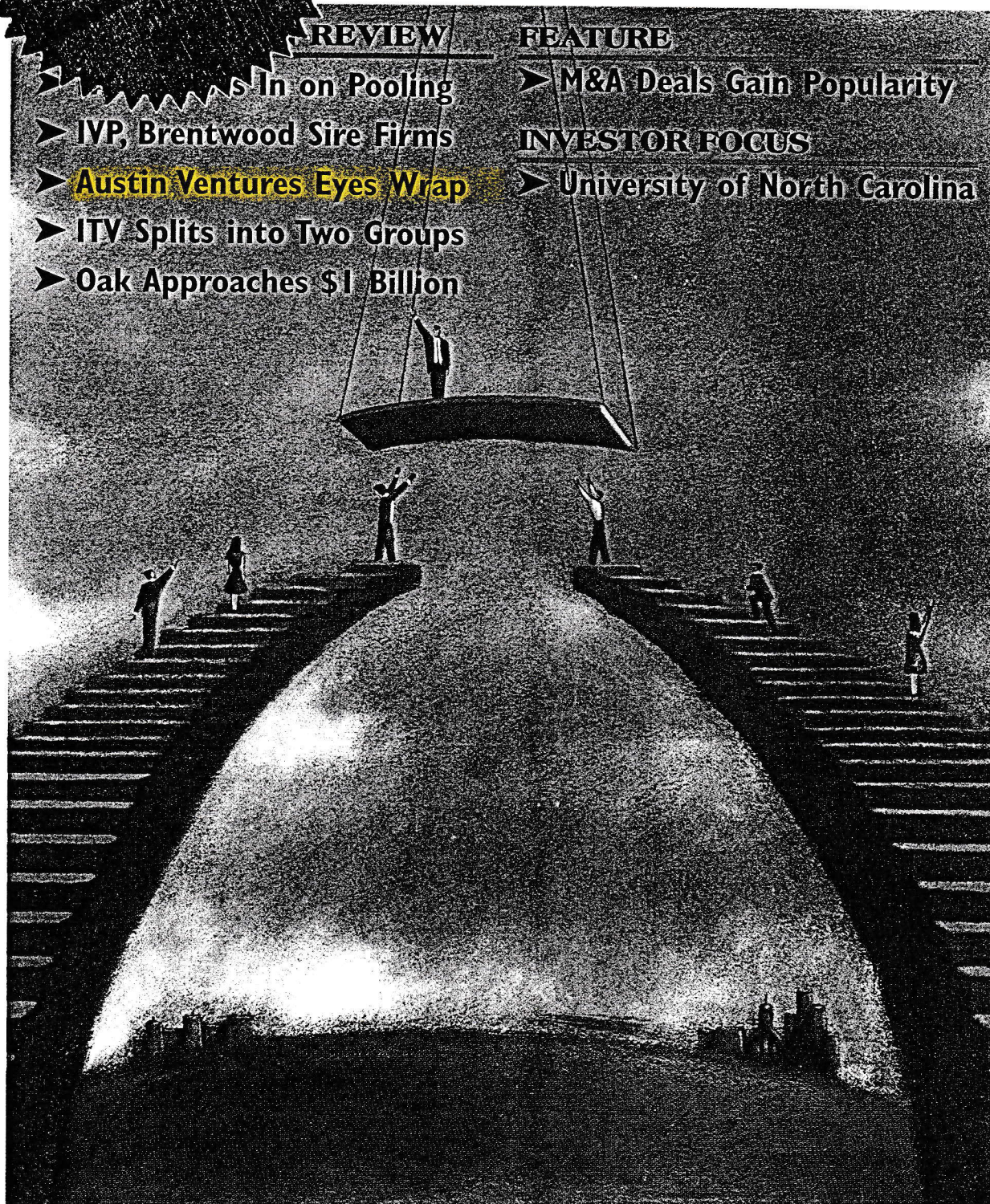
- In on Pooling
- IVP, Brentwood Sire Firms
- **Austin Ventures Eyes Wrap**
- ITV Splits into Two Groups
- Oak Approaches \$1 Billion

FEATURE

- M&A Deals Gain Popularity

INVESTOR FOCUS

- University of North Carolina



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NEWS AND ANALYSIS OF THE PRIVATE EQUITY MARKETS

Cover Story

35 Silicon Valley Lawyers Embrace VC Role

Silicon Valley lawyers go beyond their standard duties, including investing in their clients' companies. The practice is envied by attorneys outside the Valley, but it also raises the question of a possible attorney/client conflict of interest.

By Shawn Neidorf, Senior Writer

Feature

38 M&A Exists

As the bull market continues to drive up the valuations of portfolio companies, M&A deals have become a more attractive exit option for venture capitalists.

By Michael Gannon, Associate Editor

U.S. News

Brentwood and IVP Split, Form Specialized Firms.....	5
FASB Considers Pooling, Leaves IPR&D.....	5
Oak Approaches \$1 Billion.....	5
ITV Founders Divide in Two.....	5
Austin Ventures Eyes \$750 Million.....	5

Fund Formations

Omega Changes Name, Closes Fund.....	21
idealab! Closes \$363 Million Second Fund.....	21
21st Century to Wrap on Fund II.....	22
Brand Equity Set to Launch \$200 Million Vehicle.....	22
Sequoia IX Expects September Close.....	23
Nexus Holds Final Close on Second Fund.....	24
Arkansas Firm Forms Fund to Fill Void.....	25
Piper Jaffray to Close Third Health-Care Fund.....	25
Progress Bank Prepares First Close.....	26
Catterton IV Holds Initial Close.....	26

International News

Delta Capital Raises \$120 Million Fund for Middle East.....	27
Telecom Spreading Through Latin America.....	27
West Private Equity Targets \$419 Million Fund.....	28

Transitions

Summit Accelerator Makes Balmuth G.P.....	3
Barry Leaves Law to Join Hummer Winblad.....	

Deal in Review

Asia Online Anxious to Explore New Markets.....	
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Austin Ventures VII Seeks Hefty \$750M

AUSTIN, Texas — Crediting an abundance of deal flow in the Southwestern United States, Austin Ventures has almost fully invested its \$320 million sixth fund and is on the fund-raising trail with another vehicle targeting twice that size.

Austin Ventures VII is targeting a \$750 million first and final close in late October, said General Partner Joe Aragona, adding that the firm already had commitments "well in excess" of that figure from limited partners in its previous fund.

Austin's general partners wanted to raise a fund that would allow them to concentrate on doing deals for the next several years, rather than having

Austin Seeks

continued from page 5

to constantly worry about fund raising, Aragona explained. Fund VI, which tapped deal flow in the Southwest, by press time had backed 26 companies in just 10 months, with another final four or five new investments expected to close by the end of October. "We believe [the Southwest] has all the elements of all the great technology centers," Aragona said, noting that there were plenty of research centers at schools such as the University of Texas and companies such as IBM Corp. and Cisco System Systems Inc. In the first half of the year, 89 Texas start-ups raked in \$444.88 million on the heels of a record-setting 1998, when 176 companies took in \$841.61 million, according to Venture Economics Information Services, a data company affiliated with *Venture Capital Journal*. Austin will focus on five core areas, including applications and infrastructure, e-commerce, business-to-business, semiconductor and consumer e-commerce, and the firm expects to back about 60 portfolio companies. Austin additionally plans to invest \$50 million in the formation of AV Labs, an e-commerce, application and infrastructure incubator to be headed by former TL Ventures Venture Partner Rob Adams, who also is a former executive at the Austin Venture IV portfolio company, Pervasive Software. Austin currently is

NEWS BRIEFS

Continued

investments in the data communications and networking sector, as well as in network infrastructure. It also seeks to add to its portfolio of

Austin Ventures General Partner John D. Thornton said the size of the fund reflects the size of tech

Atlanta Firm Nears Close of First Fund; Two More Planned

Atlanta asset management company **J.P. Carey Inc.** is near a close on its first venture fund, a \$10 million to \$30 million pool. The company expects to follow with two larger partnerships in succession.

The debut fund, which was scheduled to close in late November, is expected to be followed by a \$10 million partnership in late 1999. J.P. Carey President John Canouse said the firm expects to raise a third pool of \$500 million by November.

Mr. Canouse said the firm intends to invest "opportunistically" in Internet and related technology, without being closely identified with a narrow industry category.

Deals will range as high as 10 percent of the total fund size, with no lower limit. The average deal will be about \$2 million, Mr. Canouse said, and the partnership will limit its portfolio to 15 to 20 companies. About 60 percent of the capital is expected to go to late-stage investments.

J.P. Carey has been operating as an asset management firm with some investment banking-style leanings for nearly five years, and has invested some \$2 billion in equity financing. It had not stepped into venture investing until it took a \$2.7 million equity stake in **RealEstate.com Inc.**, the home sales Web site company based in Atlanta.

The company is on track for an initial public offering, Mr. Canouse said, though he did not specify a time line.

Mr. Canouse's experience with the RealEstate.com investment convinced him that there was room for West Coast-style venture investments in Atlanta.

He said he hopes his firm's

VENTURE CAPITAL Information Technology

Your Monthly Briefing on Where Venture Capitalists Are Investing in IT

by John Freidenrich, who founded the firm in 1976, as well as Venture Partner Jim Wickett.

Reach Bay Partners at (408) 725-2444.

Austin Closes On \$825 Million; AV Labs Gets \$60M

Austin Ventures, Austin, Texas, has capped its seventh fund at \$825 million, just 11 months after closing its previous partnership at \$320 million.

Meanwhile, **AV Labs**, the seed-stage investor affiliated with Austin Ventures, has received \$60 million of its own.

Austin Ventures invests from \$100,000 to \$25 million in early-stage information technology companies, as well as semiconductor manufacturers.

With the new fund, the firm will invest an average of \$12 million to \$13 million per company, including follow-on rounds.

Austin Ventures added a principal, Venu Shamapant, who worked at McKinsey & Co.

Austin Ventures will hire more investment professionals in the coming months, Mr. Thornton said.

AV Labs' \$60 million debut pool was raised alongside of the capital received for Austin Ventures' fund. AV Labs will keep separate facilities and make its own investments, but Austin Ventures will help out with back-office and research duties, Mr. Thornton said. The managing director of AV Labs is Rob Adams.

AV Labs, which plans to invest \$500,000 to \$1 million in start-ups based in Austin, so far has backed four companies: **Covasoft Inc.**, a maker of e-commerce software; **iReturnit Inc.**, which describes itself as a "reverse logistics" company; **Mediaprise.com Inc.**, a Web multimedia content company; and **WebTaggers Inc.**, a Web messaging company.

Austin Ventures is at (512) 485-1900. Reach AV Labs at (512) 651-3155.