

## Startups move from the fringes

Conference here could help attract venture funding

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**September 17, 2006** — Just two years after leaving his day job for the uncertainties of entrepreneurship, David Henderson spotted the market that would help him forget all those months spent without a salary.

Henderson and his team at New Scale Technologies Inc. concluded that their prime innovation — miniaturized ceramic motors no larger than a few millimeters — was perfect for cell phones with built-in digital cameras. The newest camera phones require tiny motors to power zoom lenses or other advanced controls. Soon, researchers say, almost a quarter of the world's population will either have or want one.

Yet were it not for the determined efforts of community-minded investors, New Scale might still be lingering on the fringes. The company recently landed \$700,000 from local investment funds formed to help fledgling companies get off the ground, money it is now using to ramp up production to 1 million motors a month.

Initiatives like the ones that benefited New Scale will take center stage here this week with the start of a prestigious national conference focused on funding for startup companies.

The conference, sponsored by National Association of Seed and Venture Funds, which believes in using entrepreneurship to revitalize economies, takes place Wednesday through Friday at the Hyatt Regency downtown. More than 300 people, representing 28 states, the District of Columbia, eight countries and significant institutions such as the National Venture Capital Association, are expected to attend.

The conference is not going to end in headline-grabbing, job-creating deals for Rochester. Instead, officials say, it will offer something potentially more valuable in the region's struggle to revitalize the economy: priceless opportunities to build relationships and learn state-of-the-art techniques for developing entrepreneurs and providing them the money they need to become the major employers of tomorrow.

"I am hopeful that because the conference is here, and we have a lot of people from upstate New York attending, that it will stimulate creative thinking of our own and some new approaches," said Paul Wetenhall, president of High Tech Rochester, which is dedicated to technology-driven economic development.

The seed and venture fund conference is only one part of a flurry of activity focused on business startups regionally. The Hyatt is also playing host to UNYTech 2006, a venture forum designed to connect innovators at upstate universities with potential investors. That conference is scheduled for Tuesday and Wednesday and will involve presentations from 11 fledgling companies, at least three of which are in Rochester.



MEGAN DAILOR

New Scale's miniature ceramic motors could be used to power lenses in cell phone cameras and lead to better picture quality. The Victor company is ramping up production of its promising product.

The activity comes as upstate New York and other regions increasingly focus on entrepreneurship as the key to rebuilding local economies hammered by years of manufacturing job losses. The seed and venture fund association focuses on providing education and contacts to so-called "fly-over" regions — areas that venture investors pass over on their way to hotbeds such as Boston, Raleigh, N.C., or Silicon Valley in California.

Rochester was chosen as an up-and-coming region that is doing good work in the area of seed and venture funds, said Sue Strommer, president and CEO of the association. "I think what Rochester does right is play to its strengths and understand its weaknesses," Strommer said.

Creating a successful entrepreneurial community has two main keys, officials say. Regions must build networks of investors who are willing to risk their money to help companies find out if their ideas are marketable. And they must provide educational resources to help innovators become increasingly sophisticated in finance, business planning and other areas.

Greater Rochester has made significant progress on both counts, officials say, as represented by the existence of the Rochester Angel Network. The network is a collection of high net-worth individuals who jointly evaluate business plans from fledgling companies and decide whether to invest money.

The investments typically come at the earliest stages of a company's development. The companies are not quite ready to visit venture capitalists, who prefer to fund more developed companies.

The Angel Network currently has investments in five companies that employ more than 50 people here and 80 people regionally. It hears from two prospective companies a month. It is also in negotiations with three to four other companies.

The Angel Network hopes to build its membership to about 50, a move that could trigger more deal-making, said Christine Whitman, chairwoman of the Rochester Angel Network and chief executive of Complemar Partners Inc., a Rochester-based packaging and fulfillment company.

Continued investments from the network and from angel investors operating individually will have ripple effects, Whitman said. As companies supported by early-stage money become successful, that will attract more interested investors as well as encourage the next round of entrepreneurs.

"In a community that is looking to revitalize itself, such as Rochester, we can't let up," Whitman said.

<b>Launching a company</b>					
It takes money to turn ideas into companies — and for the uninitiated, the process can seem rather Byzantine. But the investment and venture capital game actually moves along a logical path. Here is an explanation of the stages of funding, along with a sample of local institutions that provide startup money.					
Company stage	Concept	Pre-seed	Seed	Early stage	Later stage
Milestones	Idea	Develop idea into prototype	Develop and test beta products	Launch product; start selling	Expand to meet revenue targets
Typical funding amounts	—	Less than \$100,000	\$250,000-\$1 million	\$1 million-\$5 million	More than \$5 million
Regional venture funding sources	Founders, friends, family, grants (Small Business Innovation Research program) Excell Partners Trillium Group Rochester Angel Network High Peaks* Stonehenge* Trillium Group Summer Street* DeltaPoint Capital				
* Regional firms, not headquartered in Rochester.					
SOURCE: Greater Rochester Enterprise			JOYCE SANTANA staff artist		



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Jason Austin of Penfield works on a stereo-microscope doing "squiggle" assembly at New Scale Technology in Victor.

### **A success story**

New Scale is one of those potential big-time success stories. The company earlier this year signed a major agreement with Tamron Co. of Japan, one of the world's top providers of precision optics. Tamron has signed a license agreement to use New Scale's patented "squiggle" motors in Tamron's optical imaging assemblies, which include digital still cameras, camcorders and mobile phone cameras. Tamron would market those assemblies to cell phone manufacturers such as Motorola, Nokia and others. The agreement will help New Scale expand its employment base from 10 to 22 by the end of the year. The company is creating a technology center in Victor that will produce 10,000 motors a month and is looking to build a supply chain in other parts of the world to fulfill its other contractual obligations, said Henderson, the company's founder, chief technology officer and co-CEO.

The money from the Rochester Angel Network and the University Technology Seed Fund, an investment fund managed by Trillium Group in Pittsford, will help pay for New Scale's expansion. The University Technology Seed Fund is also focused on early stage companies.

The motors would help cell phone manufacturers offer models with cameras with auto-focus and zoom lens capabilities, theoretically producing better images, said Ted Franceschi, chief development officer and co-CEO.

Franceschi is a board member who came to New Scale via the entrepreneurs-in-residence program at High Tech Rochester, one of the programs designed to raise the region's entrepreneurial IQ.

"We think that NST is just one example of how vision and dreams can be brought to reality leveraging the brilliant and capable local work force along with local investment," Franceschi said.

Without the investment, New Scale would still be in the business but would not be as far along, said Henderson, who left his job at Burleigh Instruments to found the company. The technology has other applications, such as in the medical field.

"To see this go from an idea to a promising product — it's been a great ride. You have to like it," Henderson said.

### **Help from 'angels'**

Another company that has benefited from the emphasis on early-stage investing is Geospatial Systems Inc., which develops remote sensing and related technology for capturing geographically referenced aerial digital images. Geospatial was one of the first companies to receive an investment from the Angel Network. The money helped the company complete a transition in which the assets of several companies were combined, said founder and CEO Kevin Kearney.

Kearney said the focus on early-stage investing in Rochester is notable, but is not yet enough to turn the economic tide here. Investors typically want to see that there are additional investors around to help finance a company's subsequent needs for capital.

"They want to leverage their money," he said. "But if you look for it, it's not here." He added: "We have a lot of assets, but there hasn't been a history of entrepreneurial growth here, at least since the days of George Eastman."

### Later-stage funding

Entrepreneurs always want more money, says the founder of another fledgling angel-funded company. But the region does need to work on enhancing later sources of funding, said Christopher Campbell, who runs Connected Energy, a developer of technology that companies can use to monitor and manage utility use.

"What's missing is the bridge," Campbell said. "Very rarely does a VC firm come to Rochester to do a deal."

One of the companies that has served as a bridge is the Trillium Group, which pioneered the venture fund industry when it launched in 1999. Trillium manages funds for companies at various phases of development but expects to transition to a focus on later stages, said Dennis DeLeo, a managing director and Trillium founder. Trillium works with angel investors in the region.

The origins of the Rochester Angel Network are traced partly to Greater Rochester Enterprise, a privately led economic development group. GRE is one of the main sponsors of the seed and venture fund conference, along with University of Rochester and Rochester Institute of Technology.

The conference is an important step toward revitalizing the region by helping people learn and make contacts, said Dennis Mullen, GRE's CEO.

It won't by itself trigger a turnaround, but very little in the economy will, he said. "We didn't get where we are overnight, and we're not going to be able to fix this overnight," Mullen said.

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### Money for fledgling companies

At least three local organizations are now focusing on early-stage investments, when entrepreneurs try to determine if their ideas are marketable.

A sample of companies partly financed by the Rochester Angel Network, Excell Partners and the University Technology Seed Fund, managed by the Trillium Group:

- **Rocket Broadband Networks Inc., Perinton.** Provides Internet, phone and satellite television to apartment complexes.
- **Aster Wireless, Henrietta.** Home networking technology.
- **Geospatial Systems Inc., Henrietta.** Remote sensing systems for capturing and analyzing geographically referenced digital images.
- **Lumetrics Inc., Henrietta.** Equipment for measuring thicknesses of materials.
- **New Scale Technologies Inc., Victor.** Miniature motors for use in cell phone cameras and elsewhere.
- **Connected Energy Corp., Rochester.** Systems for real-time monitoring and analysis of utility usage.
- **Smart Pill Corp., Buffalo.** Camera pill technology for diagnostic imaging.
- **OyaGen Inc., Rochester.** Novel drug treatment for AIDS.
- **Communication Synergy Technology Inc., Brighton.** Radiology information systems and document preservation.