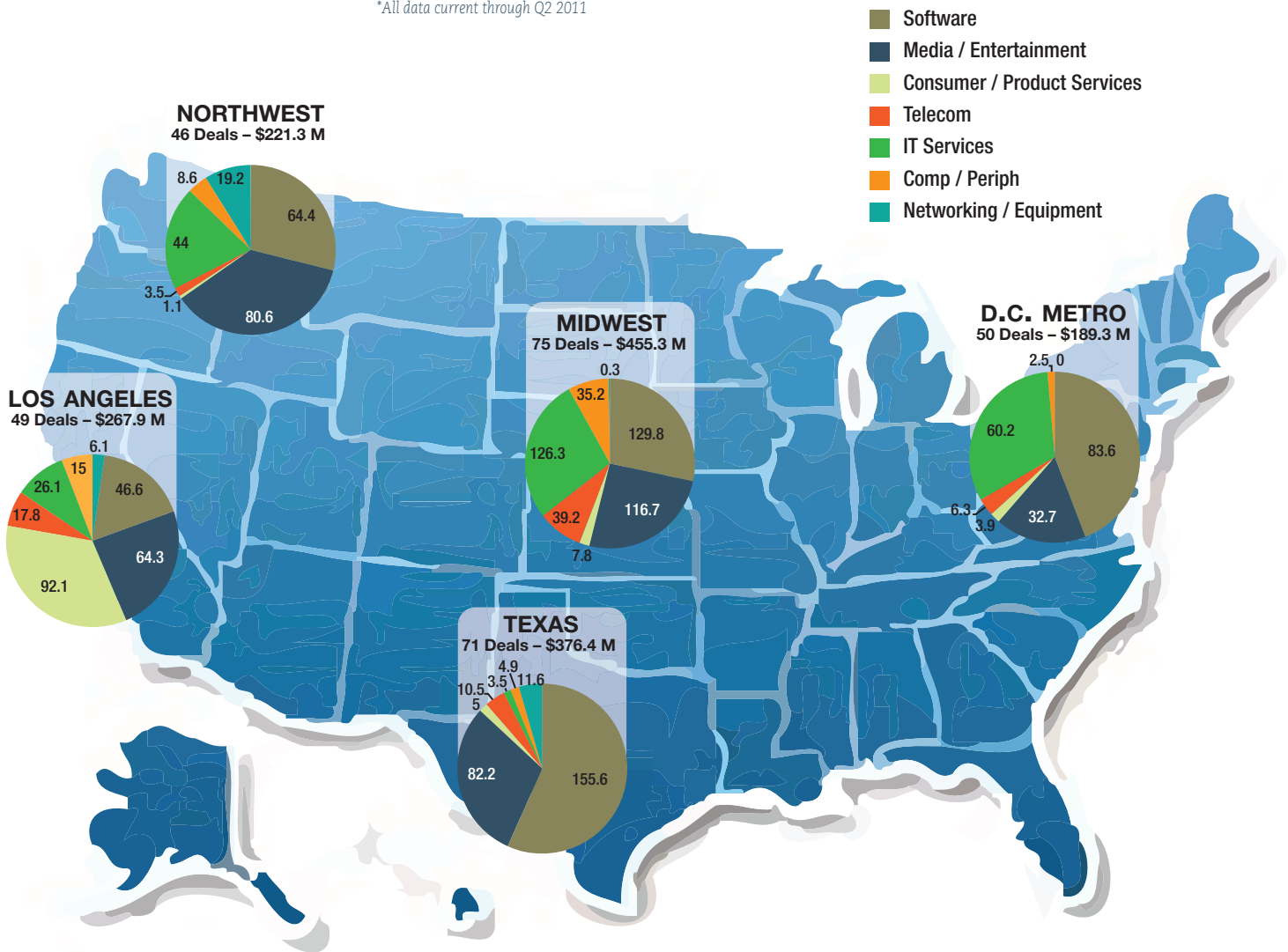


MARKING YOUR TERRITORY

WHEN IT COMES TO SECURING VENTURE CAPITAL FUNDING AT THE EXPANSION STAGE, TECH COMPANIES HAVE PLENTY OF OPPORTUNITIES OUTSIDE THE REALMS OF BOSTON, NEW YORK AND SILICON VALLEY.

2011 INVESTMENTS BY SECTOR (\$M)

*All data current through Q2 2011



Back in 2005, Silicon Valley, New England, and the New York metro area were the undisputed kings of growth capital funding in the United States. According to [research by PricewaterhouseCoopers](#), the three regions alone combined for 56% of U.S. dollars invested and 49% of all deals reported the previous year. Those trends have certainly continued through 2011, with well over half of reported Q3 venture deals linked to those areas.

But while the “Big Three” maintain their dominance of the VC landscape, there is life for expansion stage companies outside of those regions. The question is, after Boston, New York and San Francisco – where are the best places in the U.S. to raise capital?

Research by OpenView Venture Partners shows a flurry of VC activity these days in cities like Los Angeles, Chicago, Seattle, Washington D.C., and Austin. As promising young technology companies continue to secure funding away from the traditional hot spots, each of those areas have worked to carve their own niche in the investment landscape.

LOS ANGELES, CA

Perhaps fueled by the investment mecca of northern California, Los Angeles is one of the most active of the second tier regions, with 31 deals in Q2 2011 for an aggregate value of \$174 million. The city garnered broad-based interest from across the country in its vibrant e-commerce and media sectors, with Philadelphia-based [First Round Capital](#) among the only firms to make multiple investments in the area.

“The confluence of the entertainment, gaming, and aerospace industries has created a big talent pool,” said First Round Managing Partner Howard L. Morgan, noting that [IdeaLab](#) and other incubators did their part to create plenty of internet-savvy companies in the first bubble. In Q2, First Round made joint investments in Los Angeles-based [Movieclips, Inc.](#) and online advertising server software provider [OpenX Technologies](#). Launched in 2009, Movieclips offers an online search directory featuring film clips from major studios like 20th Century Fox, MGM, Paramount and Universal. The company announced a deal to bring all of its high-def clips to YouTube earlier this year. Morgan said that a deep talent pool of hungry entrepreneurs has helped make L.A. an interesting city to watch. He’s noted that over the first half of 2011, four incubator and accelerator programs have been put in place to help more startups get off the ground, which work in concurrence with an already active set of angel investors. But while there is a small handful of local, early-stage VC outposts like [GRP Partners](#) and [Greycroft Partners](#), Morgan said it’s still not enough. “[Growing that community] will be the next step in creating the kind of venture hot spots we see in Silicon Valley, Boston and New York,” Morgan said.

CHICAGO, IL

With a reported \$181 million in expansion stage deals alone through the first two quarters of 2011, the Midwest is another hot spot for growth capital funding. Leading the way is Chicago, which saw \$92 million in Q2 investments over 14 deals. With companies like [Groupon](#) and [GrubHub](#) paving the way, child care service provider [Sittercity](#) continued the Windy City's dominance of the local space with a big round of funding (\$23 million) in the quarter. One of the most active investors is [New World Ventures](#), which in addition to Sittercity, also made recent deals with [Analyte Health](#), an online clinic focused on sexual health, and [SMS Assist](#), a virtual supply chain that manages non-periodic services for real-estate.

New World Managing Partner Chris Girgenti said that while sectors like e-commerce, retail, health care, and clean tech are all trending well, the real exciting part of Chicago’s investment scene is the city’s commitment to helping the entrepreneurial community at large.

“We had to figure out a way to work together,” Girgenti explained. “As you develop success stories and make money, you then leave those opportunities and invest in new ones. In time, you start to build a nice, broad base of activity that starts to feed on itself.”

He said that firms like New World have made made investments in the community by providing resources and support to help entrepreneurs build better businesses. He cited organizations like the [Chicago Entrepreneurial Center](#) (CEC), which works to mentor and support innovative young startups throughout their early stages of development. The CEC website states that since

ENTERPRISE SOFTWARE SCORES IN AUSTIN, D.C.

Both Austin, TX and the Washington D.C. metro area continued to build on their reputations as burgeoning areas for entrepreneurship in Q2 2011. With \$76 million and \$74 million in aggregate funding respectively, the two areas demonstrated a clear commitment to the growth of local enterprise software companies.

For the D.C. Metroplex region (which includes surrounding cities in Maryland, Virginia, and West Virginia), [New Enterprise Associates](#) was the most active, pouncing on three new investments in the quarter through its office in Chevy Chase, MD. Software is the clear focus of the region, with a reported 183 deals in the sector valued at \$847.8 million since 2008. Over that same time period, DC Metro reported another 154 deals valued at \$944.4 million for the IT services, telecommunications, consumer products/services, media and entertainment, and networking/equipment sectors combined.

Austin contributed to similar trends down south, as the state of Texas invested a reported value of over \$155 million in growth capital for enterprise software companies through the first two quarters of 2011. That number already surpassed the \$139 million invested in the same sector for the entire year previously.

Local firm [Austin Ventures](#) was the most active, with joint deals of \$25 million ([Spiceworks Inc.](#)) and \$10 million ([Whale Shark Media](#)) to go along with smaller investments in companies like [Spredfast](#), a social media tools platform.



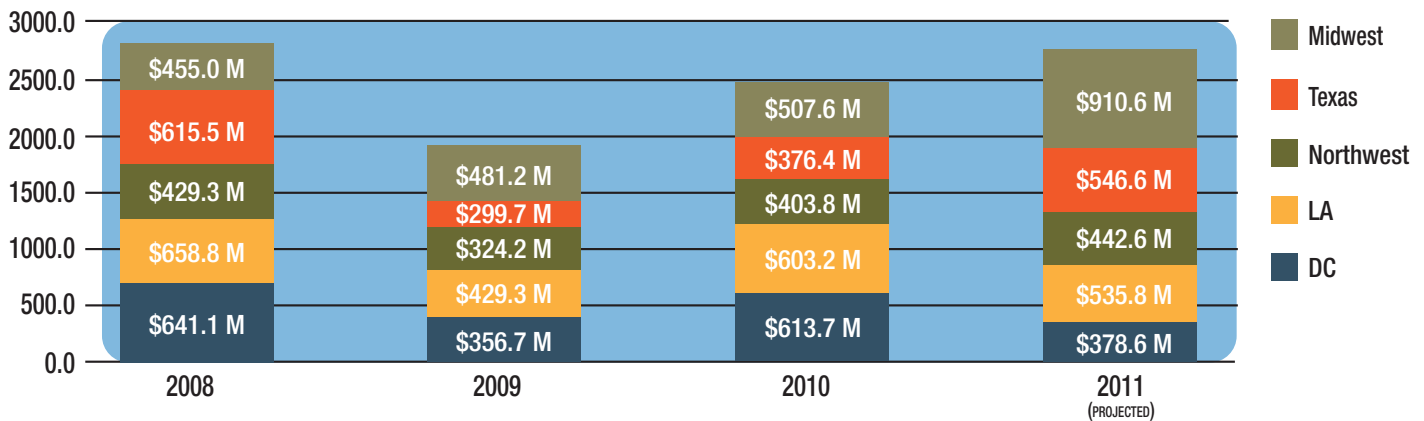
“Recently, a CEO told me he was turned down for capital because his company isn’t located in Silicon Valley. That story saddened me because OpenView would never make such a statement; we go to them, rather than telling a company it needs to come to us.”

GEORGE ROBERTS, VENTURE PARTNER, OPENVIEW

AGGREGATE INVESTMENT TRENDS BY REGION

Though DC has cooled off, Texas and the Midwest are heating up

*All data current through Q2 2011



2003, it has helped companies raise over \$160 million in financing, retaining approximately 6,350 jobs in the process. Girgenti said that New World has also helped create a seed fund called the [I2A](#), which he described as “a bunch of VCs in town that came together to create a seed fund to help these early stage companies, and hopefully create opportunities for where the vast majority of the money was, which is primarily with mid- to late-stage companies.”

He said that since the fund’s inception, the seed investing environment has continued to take hold, with many investments being made around the digital and social media spaces in particular.

“For many years, we as a community had tried to create the infrastructure that we thought was needed for a burgeoning place like Boston or Silicon Valley,” Girgenti explained. But while the first tech bubble and other setbacks hindered Chicago’s investment growth over the past decade, Girgenti said the city now seems primed for a continued upswing.

“It feels like today we are probably a few plateaus above where we’ve ever been.”

SEATTLE, WA

With giants like Amazon and Microsoft in tow, the great state of Washington has all the makings of a technology super-power. As a result, Seattle has become a hotbed for the e-commerce sector, with a reported \$96 million in venture deals for Q2 2011. Local firm [Madrona Venture Partners](#) participated in an incredible six out of 16 second-quarter deals, adding companies like [ExtraHop Networks](#) (\$14 million) and [Decide.com](#) (\$6 million) to a portfolio that also includes a co-investment with OpenView in [SkyTap](#), a Seattle-based cloud automation solutions provider.

Madrona Managing Director Greg Gottesman said that the presence of Amazon in particular has helped inspire a slew of promising young companies in the e-commerce space.

“I think a lot of times, the VC business is mostly about people investing in truly great entrepreneurs and great teams,” he explained. “Naturally, when you have the world’s greatest e-commerce company right in your backyard, you’re going to have a lot of companies like that coming from this region.” He pointed to investments in organizations like [Decide.com](#) and social e-commerce company [ShopIgniter](#) as recent opportunities to explore the Northwest’s continued innovation in e-commerce.

But there’s more than one sector trending in Seattle. With high-profile services like Amazon Web Services and Microsoft Azure setting the tone, cloud computing has also proved to be a viable target for venture funding.

“Not a lot of people realize it, but I think Seattle is an epicenter for cloud,” said Gottesman. “I think cloud companies grow well in this area; there’s a lot of talent and a lot of people here who are thinking about what we can really do with the cloud.” He cited Madrona investments in [Tier 3](#), Portland’s [AppFog](#), and [SkyTap](#) as examples of some of the promising young cloud-based companies in the area, with even more new businesses sprouting up all the time.