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One startup's 'roller coaster' ride of raising capital

By Staff Writer

For Eliot Listman, executive vice president of A Speed Software in New York, raising the capital to start his company was "a roller coaster."

At the March 17 Brown Forum for Enterprise, "Raising Capital," a technology investor outlined the two-year capital fund-raising journey of A Speed, a company that automatically parallels computer applications, making them run faster.

Marcia Hooper, a partner of Castile Partners, a Waltham, Mass.-based investment firm, took those at the forum through A Speed's capital fund-raising experience.

A Speed began its first stage of funding in the spring of 2001. The company had three people working for it, and set a goal of raising $250,000 to develop their prototype, pay for operating expenses, buy equipment and pay for salaries, Hooper said.

"The performance-sensitive market was large and important," she said. Pharmaceutical companies and financial institutions would benefit from the software services A Speed was developing.

At this beginning stage of fund raising, Hooper said, the company could look for capital from friends and family, angel investors, seed-stage venture capital, corporate or "blue bird" investors.

Panelist Joe Caruso, founder of the Bantam Group in Westwood, Mass., said on the surface, the opportunity to invest in A Speed at that stage was "something that would have a lot of interest." The fact that the company had three people with three different skill sets working for it made it attractive.

Gordon Penman, another member of the panel and managing director of the Venture Capital Fund of New England in Wellesley Mass., said he thought accepting money from friends and family early in the fund-raising stage was the logical way to go.

"They haven't proven anything yet," Penman said. "And the fact that (the blue bird) would have a non-dilutive interest is a problem."

Listman's company had $250,000 available from friends and family, but was rejected by most of the venture capital firms they sought. They did not seek corporate investors. A blue bird investor offered them $225,000 for a 10 percent non-dilutive stake in the company for $8 million. A Speed closed on the blue bird deal in August 2001.

By the fall of 2001, the company was again seeking $250,000 for product testing, beta trials and first customer sales. In December 2001, A Speed had $300,000 available from friends and family, which was the only source of funding at that time, Hooper said.

By the third fund-raising stage, the product prototype was complete, six people worked for A Speed and they were looking for $1 million to expand their team, further product development and first customer sales. The parameters of the deal, Hooper said, were that the company be valued between $3 million and $4 million, have a 25 percent to 33 percent ownership stake, have industry contacts and the ability to invest in future rounds of funding.

The panelists all agreed that A Speed was seeking funding during a difficult period – in the spring of 2002, the tech bubble had burst and there were few investors.

That A Speed didn't have any customers after a year was also a drawback, Caruso said.

"The frustrating thing for entrepreneurs is that investors say we need to see customers before we invest, but you need money to get customers," Caruso said. "The thing we look for is customer activity."

By the summer of 2002, A Speed still needed to raise $1 million. Friends and family couldn't provide any more capital, A Speed didn't seek angel investors and there were no venture capitalists.

The company closed on an $800,000 deal with a corporate investor. A Speed thought the funding would last for the next nine months.

By the fall of 2003, A Speed completed its prototype and finished two pilot programs, but neither were purchased, Hooper said. They were still seeking customers, had to fire two people, no salaries were being paid, and they were taking bridge loans from friends and family. At this point, A Speed needed to raise $5 million.

"A Speed was willing to sell 50 percent of the company for $5 million," Hooper said. By December, a venture capitalist was interested, but there were strings attached.

A Speed needed a CEO. The venture capitalist would offer the money $2.5 million at a time. The first installment would allow A Speed time to find three customers to verify the technology and the second installment to fund expansion.

A Speed took a $75,000 bridge loan from angel investors. Two months later, in February

2004, they closed on a $5.5 million venture capital deal that would value the company between $9 million and $10 million so long as A Speed meets milestones within a year.

“So far, this is a success,” Listman said. “You have to look at every milestone as a success. It takes a lot of wins.”

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