



National Venture Capital Association

Contact : Jeanne Metzger, National Venture Capital Association, 703-524-2549, [jmetzger@nvca.org](mailto:jmetzger@nvca.org)  
Emily Mendell, The Weiser Group, 610-359-9609, [emendell@weisergroup.com](mailto:emendell@weisergroup.com)

## **VENTURE CAPITALISTS AND ENTREPRENEURS COMMIT TO IMPROVING HOMELAND SECURITY AMID GOVERNMENT CHALLENGES**

*Small Companies in California and Washington D.C. Seen as Most Likely to Capitalize on Opportunities to Sell Technology to Government and Commercial Sectors*

*Session Playback Available*

**Los Angeles – September 10, 2003** – Future technological advancements in homeland security will largely depend on the ability of young, privately-held companies to navigate the United States government, asserted a roundtable of venture capitalists and chief executive officers who met in Los Angeles yesterday. The panel, which was assembled for the first time by the National Venture Capital Association, shared the difficult challenges of working with federal, state and local agencies. These hurdles include longer lead times, complex budget channels, long priority lists, and competition with larger companies. Yet, despite the challenges, VCs and CEOs view the homeland security sector as a highly promising opportunity that will improve civilian and infrastructure protection and first response to attacks and disasters.

The roundtable discussion brought together venture capitalists from both coasts including Tom Siegel, Shepherd Ventures; Dorothy Pavloff, California Technology Ventures; Frank Kline, Kline Hawkes; David Stastny, Osprey Ventures; and Hal Brown, Paladin Capital. Joining the venture capitalists were the CEOs of some of their homeland security company investments including Chris Maloney, Voyager Systems; Lewis Stanton, E Team; Stephen Forte, Ascendant Telecommunications; Tom Goldman, Netbotz; and Richard Earley, Arxan. Additionally, Tom McMillen, former US Congressman, participated in his capacity as Vice Chairman of Sky Venture Capital and CEO of Global Secure.

In speaking about the future of the sector, McMillen advised perseverance stating, “The homeland security market offers a great opportunity, but it won’t happen overnight. It is a highly fragmented market and operating in this environment requires patience.” McMillen acknowledged that the “challenge for entrepreneurs is to follow the pathway to where the money is.”

Chris Maloney, CEO of Voyager Systems, agreed with the funding issue, “The key problem we have today is that the government can’t react fast enough to the entrepreneur,” said Maloney, “We are trying to get the funding dollars for wide scale deployment. If the government can let go of money that has been promised, we will see a sustained market.”

Funding issues aside, all agreed that the government has taken significant steps to look at new technologies coming from younger companies. Pilot programs have been especially expedient. There was a strong sense that the process will become more efficient over time.

“There is a tremendous desire with this administration to buy the best available commercial solution,” remarked Lewis Stanton, CEO of E Team. “Then there is the reality of the Department of Homeland Security getting several hundred unsolicited pitches each day. How do you handle that?”

Opportunities are waiting for companies who can operate in both government and commercial spaces. All of the companies represented at the event were in business commercially before 9/11 and have evolved to serve growing homeland security needs.

“When we began funding companies in Los Angeles in 1984, our theme was ‘guns to gadgets,’” said Frank Kline of Kline Hawkes & Co, “We were moving companies away from government toward commercial. Now those companies are homeland security companies.”

With regard to where the homeland security sector may settle geographically, the group identified Washington, DC and California as ideal venues. While several participants suggested that companies must be physically close to the Federal Government, others argued that California offers top human capital for innovation.

“There is an advantage to being in the DC area,” stated Rich Earley, CEO of Arxan. “Just like semiconductors and enterprise software grew in Silicon Valley, you need to be in proximity to your customers.”

“There is a great deal of talent in California from the aerospace and defense sectors,” countered Dorothy Pavloff of California Technology Ventures. “Sales and customers can be in different regions but you need to go where the talent is.”

Venture capitalists see themselves in a supporting role to the entrepreneurs in whom they invest. David Stastny of Osprey Ventures explained the synergy of VCs adding management expertise to the entrepreneurs who are so often “technologists and not managers.” And while venture capitalists are beginning to understand the promise of homeland security, investment in the sector is still small and is usually only part of a firm’s overall strategy. However, its promise is becoming more apparent as the market evolves.

“At one time in the venture capital community there was a stigma with investing in the public safety market because of the long sales cycles,” said Tom Siegel of Shepherd Ventures. “But in the last two years, as a result of the increased funding, that criticism has been set aside.”

“Homeland security investment is like Y2K in terms of the number of people impacted and like the space program in terms of the duration of the need,” said Hal Brown of Paladin Capital who manages a fund focused on homeland security companies.

Time will tell but the panel participants all took a long-term view, steeped in fundamental business principles.

“Patience is key and patience requires capital. The homeland security sector is not a wave, but a rising tide,” said Stanton of E Team said.

“Look at homeland defense or any sector,” said Tom Goldman of Netbotz, “If you can’t alleviate pain at an affordable cost, you won’t be successful.”

“We are in the midst of recalibration and, as in any adjustment, there is lack of efficiency,” remarked Stephen Forte, CEO of Ascendant Telecommunications. “But over the next few years the process will

clarify itself. In the future, we will be perhaps using different ROI numbers not based on costs but on lives saved or time to response.”

**To listen to the roundtable discussion, a playback is available at 1-800-839-6713. Passcode: 5842372.**

The National Venture Capital Association (NVCA) represents more than 450 venture capital and private equity firms. The NVCA’s mission is to foster the understanding of the importance of venture capital to the vitality of the U.S. and global economies, to stimulate the flow of equity capital to emerging growth companies by representing the public policy interests of the venture capital and private equity communities at all levels of government, to maintain high professional standards, to facilitate networking opportunities, and to provide research data and professional development for its members. For more information about the NVCA, please visit [www.nvca.org](http://www.nvca.org).