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Flight of big returns

There was a time when
Portland feared losing
its most promising
startups to Silicon Valley.

One trip next week
shows how all of
that has changed.

Story by Matthew Kish

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- Preview of next week's Angel Oregon competition.
- Three legal tips for startups raising capital.

Tourists: Visit, stay and spend

BY WENDY CULVERWELL
BUSINESS JOURNAL STAFF WRITER

Travel Oregon is extending its reach to tourism-related businesses.

The state's \$12 million tourism promotion agency debuts a fresh website starring Gov. John Kitzhaber touting the economic benefits of tourism. The site is designed to help tourism-related businesses leverage state and local resources to develop their marketing muscles.

The move comes 10 years after Oregon established a 1 percent hotel tax to fund tourism promotion, quadrupling

Destination dollars

Top states for
tourism spending

1. Hawaii \$75M
2. Illinois \$54.6M
3. Texas \$35.7M
4. Florida \$35M
5. Michigan \$27.4M
18. Oregon \$11.5M

Source: National Council of State Tourism Directors (numbers rounded up)



the budget for developing tourism opportunities in all corners and marketing efforts.

Thanks to the increase, Oregon ranks No. 18 in the nation for state-level tourism spending, according to research by the U.S. Travel Association.

BIG POTENTIAL

Todd Davidson, president of Travel Oregon, sees a new opportunity to take an even greater leap forward.

Cities and counties together collect about \$100 million through local visitor taxes and devote about \$45 million of that to promoting tourism in their own communities. Davidson said aligning his agency's \$12 million budget with the \$45 million spent by partners gives Oregon \$57 million to focus on a critical

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NOW THAT'S A SWITCH:
Winery owner could
have been a teacher.

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Companies head to Silicon Valley in search of \$

BY MATTHEW KISH
BUSINESS JOURNAL STAFF WRITER

Opal Labs President Steve Giannini will board an Alaska Airlines flight to Silicon Valley at 6:30 a.m. Tuesday. Unlike thousands of Portland entrepreneurs who have boarded the same flight, he plans to come back.

For years, Portland has been dogged by a reputation that it's a good place to start a business, but a tough place to grow one. Hundreds of promising companies have abandoned Portland for the Bay Area's magnetic clusters of venture capital and engineering talent.

"That's a bunch of hogwash now," said Diane Fraiman a Portland-based partner of Seattle-based Voyager Capital.

Tuesday's flight is part of a field trip organized by the Portland Development Commission to showcase some of the city's brightest young companies to Silicon Valley's top venture capitalists. There have been other group excursions to the sun-drenched streets of Menlo Park, but Tuesday's marks a turning point.

Over the past 18 months, Portland's start-up ecosystem matured. The economic benefits of that development should snowball in the next two years as venture-fueled companies add thousands of workers and investors cash out and reinvest millions of dollars in profits in new startups.

"It's a massive change," said prominent investor and entrepreneur Nitin Khanna, one of the trip's organizers. "Portland has become an accepted technology hub."

WHEELS UP

The Silicon Valley trip is a first for the Portland Development Commission. It's also the final leg of the Portland 100 strategy it launched last year in partnership with Khanna.

Portland 100's three goals: find mentors, talent and capital for promising startups. The Silicon Valley trip is designed to address the third leg of that stool.

Representatives of five companies will make the trip. (Not all of the companies in Portland 100 will make the trip because each isn't raising funding):

- Athlepath.
- GlobeSherpa.
- Tellagence.
- Opal Labs.
- Vizify.

"For us, the trip is about funding," Giannini said.

Opal builds business software that incorporates social media. The company has been bootstrapped for two years. It's in the middle of a \$1 million angel round and has already landed an investment from the Portland Seed Fund. It wants to expand its efforts into a Series A round this fall.

"This trip will provide the building blocks for those efforts," Giannini said.

The trip includes meetings with eight venture capital firms and a dinner with other venture capitalists Tuesday night.

The Portland Development Commission will spend \$10,000 on the trip, covering the flight and hotel of one person from each company.

Khanna and Portland Development Commission Executive Director Patrick Quinton will also make the trip.

It wasn't difficult to line up meetings with venture capitalists, said Jared Wiener, the Portland Development Commission's software industry liaison.

"Even the ones that we can't meet with, they've been as a whole very responsive," he said.

Although the program is still a pilot, the PDC said it could become permanent. It has a \$40,000 annual budget.

"The next step for us is we're going to have to take stock of this program to see if it's something we're going to continue."

SHARK TANKS AND PUB TALKS

Portland has been known as the Silicon Forest since the 1980s, but as recently as



Trip attendees include, from left, CEO David Embree of Athlepath, co-founder Eli Tucker of Vizify, PDC Executive Director Patrick Quinton, investor Nitin Khanna, Opal Labs President Steve Giannini, Nat Parker from Globe Sherpa and Tellagence CEO Matt Hixson.

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two years ago Khanna and others lamented gaps in the ecosystem that supports entrepreneurs. Without more resources, they argued, venture capitalists would never flock to Portland.

Since then, dozens of new resources have launched, including Upstart Labs, Wieden+Kennedy's Portland Incubator Experiment, the Portland Seed Fund and a Westside Incubator launched by TiE Oregon and the Melvin Mark Cos. The Oregon Angel Fund and Angel Oregon are also investing larger amounts in young companies.

Informal networking events have followed, including pub talks, wine tastings and shark tank-style deal screenings.

As a result, venture capital investments in Oregon companies are on pace to nearly double this year, according to data from PitchBook. Nationally, venture capital is on pace to decline.

"The Portland software community has come of age," said Nathan McDonald president of the Northwest Region of the Keiretsu Forum, a global network of angel investors.

The maturation of the startup scene is expected to have two significant consequences.

First, venture-backed Portland companies are no longer expected to become former-Portland companies. For years, successful Portland startups, such as Jive Software, re-

located to Silicon Valley to be closer to new equity investors. That's no longer the case.

When Esri acquired Geoloqi, its Portland office didn't close. Same with RNA Networks Inc. after it sold to Dell and Small Society after it sold to Wal-Mart.

"It's the smart thing to do," Fraiman said. "It's cost-effective. You don't need to move people in a software company. The talent is here."

As those talent networks build, Portland will continue to attract top engineers.

Second, the biggest names in venture capital have been operating in Portland for years.

Kleiner Perkins Caufield & Byers, U.S. Venture Partners, General Catalyst Partners, Norwest Venture Partners, Trinity Ventures, True Ventures and Advanced Technology Ventures have invested in Portland startups.

"You've got every major VC in tech somewhere here in Portland or the greater Portland area," Fraiman said. "Most people who aren't in this community actively are surprised. In some cases the old tapes are still playing."

The big change: The giant pool of venture capital flowing through Portland has gotten the attention of traditional asset managers.

Some speculate traditional asset manag-

ers could partner with the Oregon Growth Account or the Oregon Community Foundation to make institutional pockets of money available to startups, adding more dry powder to the explosive startup scene.

Fraiman predicts within two years some venture-backed Portland companies will have lucrative exits.

"Once that occurs, it's the old adage: 'Success begets success.' It will become even easier."

ROOTS OF SUCCESS

There's no consensus on what sparked the recent maturation of the startup scene, but several factors likely contributed.

For one, the city's enviable quality-of-living has made it an attractive destination for risk-taking young entrepreneurs and top engineering talent.

"Portland is the last bastion of coolness on the West Coast," Fraiman said. "The rap on Portland five-plus years ago is you couldn't get the team. The reality is that is no longer true. You can."

It's also a relatively cheap place to start a business.

An entrepreneur can get a startup off the ground in Portland for \$500,000. It would cost \$4 million to launch the same idea in San Francisco and more than \$2 million in Seattle because of higher rents, higher wages and a higher cost of living.

The success of entrepreneurs like Khanna, whose Saber Corp. was sold for more than \$420 million in 2007, has not only inspired a new class of entrepreneurs, it's also made capital more readily available for them.

Like many entrepreneurs who have successfully sold a company, Khanna remains involved in the community, advising companies and making angel investments.

"Nitin had a great exit, and he's been a very active angel investor," said Rob Wiltbank, a professor at Willamette University and partner at Montlake Capital. "Once you get a couple of cashed-out entrepreneurs, it starts to snowball slowly from there."

