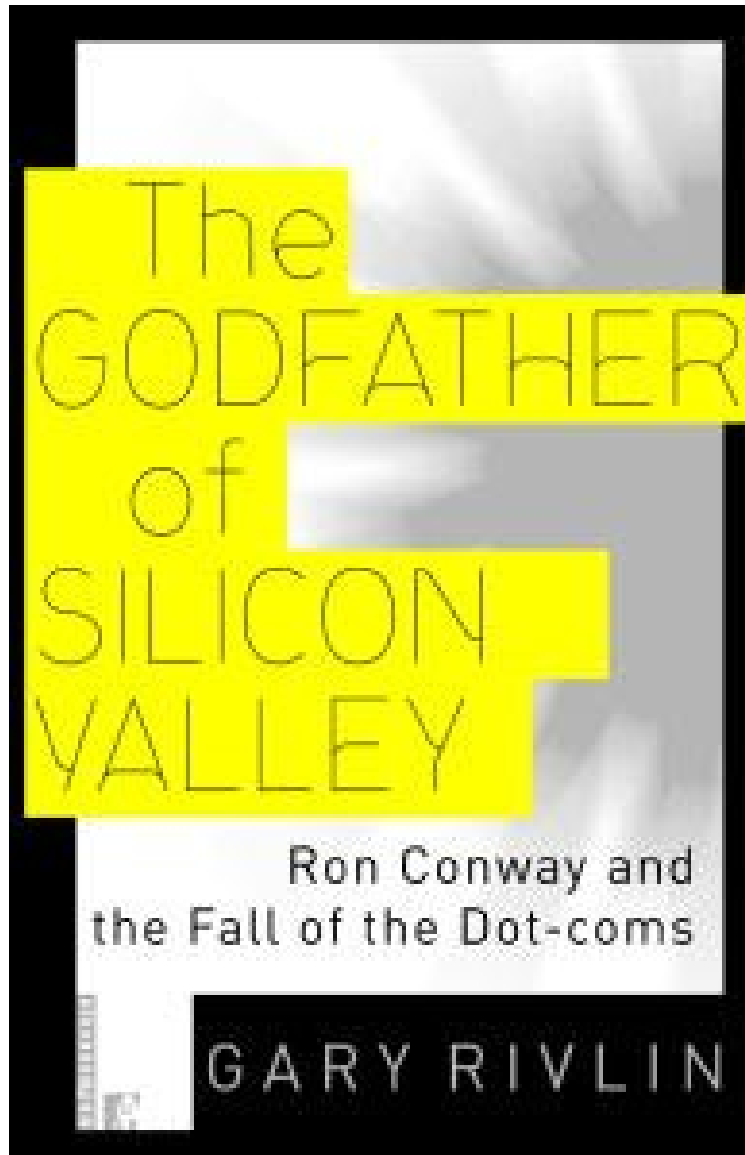


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## The Godfather of Silicon Valley: Ron Conway and the Fall of the Dot-coms

Gary Rivlin

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**Gary Rivlin : The Godfather of Silicon Valley: Ron Conway and the Fall of the Dot-coms** before purchasing it in order to gage whether or not it would be worth my time, and all praised The Godfather of Silicon Valley: Ron Conway and the Fall of the Dot-coms:

2 of 3 people found the following review helpful. Don't rain on Ron's paradeBy CCKateAnnHello,I don't have a friendship with Ron Conway at this time, but I did grow up on the same street in SF with him and his large family as a

young child and as fate would have it, ended up working for one of his start up companies in the 80's in Menlo Park. I hadn't seen him since childhood, and was happy to see and know that he turned out to be a kind, generous, smart individual that treated his employees with dignity and respect. What more could you ask for? He has done more for the growth of Silicon Valley than anyone I know and we are blessed to have him as one of our visionary leaders and investors. I have a friend that works with a lot of startups and angel investors VC's as a consultant, Sally Pera at PeraConnect.com, that keeps me abreast of all the workings in this marketplace. If I saw him again I would thank him personally for all he's done for our Valley and a personal thank you from me. Kate Riser 0 of 0 people found the following review helpful. Bubble Saga By A Customer In some ways this book reads like an extended magazine article, although it does provide a little more context than that. It is a very interesting Internet stock bubble saga and the author shows that he had primary access to Ron Conway and his main partner Bob Bozeman. It also didn't hurt that Conway provided a binder full of information detailing who was in his angel funds and how much they put in. At the same time the book easily could have done without some of the snideness, especially toward Conway personally. The author also admittedly takes some partisan swipes at Red Herring (he last worked at a main competitor to Red Herring, the now-defunct Industry Standard). But the fallout from this story is what Conway himself told Business Week earlier this year: "When the Bubble burst, all hell broke loose!" This book gives a good sense of why that was especially true for Conway and his angel investors. 13 of 15 people found the following review helpful. Personal invective uncalled for By Jamis H. MacNiven I found it reprehensible that the author (who was invited by the individual he ended up attacking) to have a look at the working of a man's business and social life, would choose to make so many irrelevant personal criticisms. His entire piece (and it is but a piece being a very small book) is suspect when he makes comments such as Mr. Conway is somehow intellectually limited because he reads only business publications and books even when he is on vacation. I guess I had better hide this book in a Tom Clancy novel when I'm at the beach. His personal attacks became much more pointed and are not worth repeating. There probably is a sensational business story within this subject but since the story was started up with such cheap shots at Mr. Conway that this author's objectivity comes into question. Perhaps Mr Rivlin would have preferred that everyone keep a low profile and just buy another beach house instead of hosting lavish parties and wantonly throwing money at children's health charities.

Gary Rivlin tells the story of Ron Conway, the man who has placed more bets on Internet start-ups than anyone else in Silicon Valley. Conway is a reader-friendly way into the realm of angel financing, where independently wealthy investors link up with companies just as they are being born. King of the Angels takes you into this fascinating world on the edges of the financial universe, where the pace is frantic, the story lines are rich, and every moment is perilous.

From the Inside Flap Gary Rivlin tells the story of Ron Conway, the man who has placed more bets on Internet start-ups than anyone else in Silicon Valley. Conway is a reader-friendly way into the realm of angel financing, where independently wealthy investors link up with companies just as they are being born. The Godfather of Silicon Valley takes you into this fascinating world on the edges of the financial universe, where the pace is frantic, the story lines are rich, and every moment is perilous. About the Author Gary Rivlin is the author of three acclaimed works of nonfiction, The Plot to Get Bill Gates, Drive-By, and Fire on the Prairie: Chicago's Harold Washington and the Politics of Race, winner of the Carl Sandburg Award for Nonfiction. He has reported for The Chicago Reader and the East Bay Express. He is currently a senior writer for The Industry Standard. Excerpt. copy; Reprinted by permission. All rights reserved. Chapter 1 KING OF THE ANGELS The Nasdaq was far from the top of its historic ascent the first time I heard Ron Conway's name. The locale was San Francisco, inside a Mission District cafe; whose purveyor had only recently shared with me a stock tip. The particular Internet stock he mentioned didn't seem nearly as significant as the fact that he was whispering a stock at all. The moment called to mind Joe Kennedy's famous quip that he knew it was time to get out of the market when his shoeshine boy started giving him investment advice. In today's San Francisco the equivalent is the barista in a coffee bar sharing intelligence he overhears while jerking lattes. My companion that morning was a neighbor and Internet entrepreneur, Andrew Beebe. Beebe was representative of a type one bumped into a lot, especially in 1999: jittery smart man-child CEOs, confident and bright, young men in their twenties who all seemed to know one another and one another's business. Beebe, twenty-eight, was the CEO of Bigstep, an Internet startup created to help mom-and-pop businesses get on the Internet. We were talking industry talk in an off-the-record kind of way when something I said spurred him to excitedly boot up his laptop. He wanted to show off TheBrain, a software product that he only half-jokingly claimed had changed his life. TheBrain allows users to render connections visually by linking and cross-linking anything residing on a computer hard drive--e-mails, random notes, an address. "The wonder of the mind and the source of human creativity," TheBrain's user guide tells us, "is the connectedness of all thoughts." Beebe, however, had employed--the technology for a far more prosaic endeavor. Like the congressman who is already raising cash for his next run the morning after he is elected, the dedicated Valley entrepreneur was already raising his next round of financing while still buzzed on the adrenaline of that week's \$15 million round. Beebe had harnessed TheBrain to help him make contact among the big-time venture capitalists on Sand Hill Road, the address of choice among the brand-name VCs. He had plugged in every A-list VC,

and then linked them to anyone he knew with even a thread of connection to that name. Think of TheBrain as a perfect way of visually rendering one's own personal Six Degrees of Separation. Beebe zoomed in to a random name and showed me the various connections he had to that VC. He pulled out to show me the macro view, and the screen vaguely resembled a road map of France. Thin squiggly lines ran everywhere. Occasionally there'd be a slight thickening around, say, Lyon or Marseilles, but then near Paris the lines came together into an indistinguishable lump. TheBrain, it seemed, was suffering from a life-threatening ganglion cyst. Beebe zoomed in to the center of the mass. As in France, where all roads lead to Paris, within the money-raising world all roads led to this man Beebe called "the king of the angels." The use of the term "angel" in a business context dates back to the start of the last century, when it was used on Broadway to flatter wealthy benefactors willing to pony up the capital required to stage a theater production. Nowadays the term, at least in less celestial discussions, is most often used to refer to rich individuals who invest in fledgling technology companies. Apple Computer was started with angel funding, as was .com and a long list of profitless, no-name companies that nonetheless went public and returned an imponderable payout for their patron saints. "The grassroots of American capitalism have never been better watered," U.S. News declared in 1997 in a lengthy feature article about the angel phenomenon. According to the University of New Hampshire's Center for Venture Research, an estimated 250,000 active angel investors sank a staggering \$20 billion into small companies. By 1999, those figures would swell to 400,000 angels investing an estimated \$30 billion. The money flowing into venture capital funds was more staggering still. "At the height of the Internet frenzy," says Jeff Bonforte, founder of a company called I-drive.com, "friends of your friends' dads were begging to give you money." At the same time, entrepreneurs such as Bonforte were all competing for the same small group of platinum, well-connected investors, especially those widely regarded as the industry's top-tier venture capitalists. In 1997, Paul Saffo, a director at the Menlo Park-based Institute for the Future and one of the area's better-known pundits, told me that there was so much money pouring into the Valley that "there aren't enough rat holes to put it down." That year venture firms invested a record \$14 billion dollars in startups, according to the National Venture Capital Association (NVCA) and Venture Economics—a fivefold increase over the venture dollars invested just six years earlier. Yet even that record-shattering figure was soon to be dwarfed. VCs invested more than \$15 billion in startups in the last three months of 1999 alone, and in the year 2000 venture investments topped \$100 billion for the year. College endowments, employee pension funds, foundations, rich individuals: as a group, each dramatically upped the percentage of its holdings—earmarked for these highest of high-risk investment vehicles. And why not? In 1994, the venture firm Sequoia Capital had invested \$2 million in Yahoo; by 1999, assuming Sequoia and its investors hadn't sold a single share, its Yahoo stake would be worth more than \$4 billion. The \$6.7 million Benchmark invested in eBay in 1997 was worth \$400 million when the company went public in September 1998, just nineteen months later, and an incredible \$4 billion by the following spring. By 1999, the average Sand Hill Road venture capital firm specializing in early-stage investments was providing returns of 47 percent a year over the previous five years, according to the NVCA and Venture Economics. The most successful houses, such as Benchmark and Sequoia, were spinning out returns exceeding 100 percent per year. Money of every kind rained down on Silicon Valley in the second half of the 1990s. There was the venture community's so-called "smart" money, which came with connections and presumably the collective wisdom of the firm's partners, and also "dumb" money, from rich people who knew nothing about the Internet except that it seemed to be a money tree for those well connected enough to get in early. Money poured in from Japan and Europe, money flowed from the scores of established corporations, ranging from Intel and Hewlett-Packard to Citibank, that had created corporate venture divisions. Where in 1995 corporate venture investments totaled \$177 million, according to the NVCA and Venture Economics, in 1999 that figure had grown by a factor of 44, to nearly \$8 billion. Everyone with the means wanted to play. In early 1999, two former members of the San Francisco 49ers football team, Ronnie Lott and Harris Barton, created Champion Ventures, a venture fund for professional athletes. In less than two years, the pair raised \$190 million from 250 athletes, both active and retired, whose money would piggyback on the investments made by some of the Valley's most successful venture firms. Companies such as OffRoad Capital, established in 1999, were created to help America's latest disadvantaged group—the very rich shut out of private investment opportunities ("At OffRoad Capital, we simply won't rest until we give this country's excluded millionaires the pre-public investment access they so rightfully deserve"). The meVC Draper Fisher Jurvetson Fund became the first publicly traded venture capital stock when it debuted on the New York Stock Exchange in June 2000. Even the CIA jumped into the game with In-Q-Tel, a \$28 million pot of cash set aside to help fund startups that might augur improvements in the spy business. With all that money floating around it was no surprise that the Valley startup scene was hit with the kind of inflation usually witnessed in troubled Third World countries. A one-quarter share in an early-stage startup that would have cost a VC maybe \$1 million back in 1995 cost between \$5 million and \$8 million by 1999, if not more if the founders were a known quantity. Later rounds swelled proportionately. Venture capitalists talk about a seed round, or A round, and then letter subsequent rounds accordingly. Twenty-seven-year-old MBAs running six-month-old startups were routinely raising \$20 to \$30 million in B and C rounds of financing. What percentage of a company the investors would in turn own depended on the "post-money" valuation, which is Valleyspeak for the paper worth of a company after a round of funding is completed, as agreed upon by the company's stakeholders. In 1995, a

venture capital firm throwing--\$4 million into the pot as part of a B-round financing would have secured a 20 percent stake in the company, assuming a then-typical post-money valuation of \$20 million. By the end of the decade, though, the new economy would price that same company at \$100 million. So the \$4 million investment that bought 20 percent of a company in 1995 now bought only 4 percent. Even at those prices the competition was stiff, and even well-regarded VCs were routinely cutting corners when conducting due diligence for fear of being locked out of a deal. Inflation meant technology startups had money to burn, and they tended to do just that, like the ten-month-old Silicon Valley consulting firm that offered a free \$40,000 Mercedes sports car to any employee who referred a new employee. Companies spent lavishly on everything from \$2,000 office chairs to free daily lunches for employees to the \$3 million several dot.coms paid for thirty seconds during the Super Bowl. Inflation also meant that most VCs wouldn't even look at a deal for anything less than a few million dollars, and angel investors accordingly assumed a more central role in the Valley's economic ecosystem. In the fall of 1998, Artie Wu, the co-founder of a company called Vividence, found himself sitting in the offices of Kleiner Perkins Caufield Byers, the most envied and sought-after venture firm on Sand Hill Road. At that point Wu and his co-founder were just two guys working out of Wu's apartment on what they hoped was a winning idea for an Internet business. Kleiner partner Russ Siegelman was impressed-until the two talked money. With time, Siegelman would prove open to six-figure seed rounds, but back then he was new enough as a VC and uncertain enough of the potential payoff of Wu's idea that he proved reluctant to take the idea to his partners. Wu, it turns out, didn't need nearly enough to satisfy Kleiner's usual appetite.