

ELEMENTS OF EXCELLENCE SERIES

In June, Fairview hosted its first Netcast as part of the Elements of Excellence Series – a platform for sharing successful private equity and venture capital business practices. The first Netcast was hosted by Partner Matt Schaefer and featured Rick Charpie, Managing General Partner of Ampersand Ventures. The focus of the netcast was Ampersand Ventures and their investment in Talecris Biotherapeutics.

Talecris, a global biotherapeutic and biotechnology company that discovers, develops and produces critical care treatments for people with life-threatening disorders in a variety of therapeutic areas, was one of the largest IPOs of 2009 and was recently acquired by Grifols SA, a Spanish developer of medical products, for \$3.4 billion. Ampersand played a major role in the company's formation and success, the details of which were shared in the Netcast.

Fairview's Elements of Excellence audio netcasts feature discussions with guests who share insight on topics relevant to the private equity and venture capital community. The netcasts are available to stream or for download on our website.

NEW YORK AS A VENTURE CAPITAL DESTINATION

New York City has long claimed the title of the financial and media capital of the world. It is also indisputably a leading global player in the fields of commerce, culture, art, fashion, research, education and entertainment. In addition, New York is famously entrepreneurial across multiple disciplines, from areas as diverse as financial services and advertising to the culinary arts. Small businesses are continuously being formed in the city's five boroughs across a wonderfully diverse spectrum of industries. And yet, despite its history as a Mecca of entrepreneurship, New York has historically struggled to build critical mass in one major area: high tech innovation. It appeared to have ceded dominance in high tech entrepreneurship to Silicon Valley, Boston and other geographical hotbeds of venture capital activity.

There are many competing theories for New York's past struggles in building and sustaining a traditional venture capital ecosystem. These include everything from prohibitively high start up costs, to a lack of local venture capitalists and angels, and to the allure of handsome compensation with less

career risk provided by financial services firms.

Today's New York, however, is undergoing major changes in its entrepreneurial landscape. Although the city continues to suffer from the subprime mortgage fallout of 2008 and the resulting market turmoil, the high tech start-up community has been thriving. The costs to start businesses, including real estate and wages, have declined significantly. Furthermore, the financial crisis led many New Yorkers to pursue non-financial services careers and assume greater personal risk. As a result, many angels and venture capitalists have turned their attention to New York, and media attention on the city's entrepreneurs has intensified. New York's high-tech start-up culture appears to be thriving unlike any other period in recent history.

Digital Media in New York

New York startup innovation centers around digital media, specifically game changing products or services not yet offered by traditional media giants. These startups' proximity to Fortune 500 and other large media companies

allows them access to a large customer base and even potential future acquirers. In building their startups, New York entrepreneurs have been aided by advancements in programming such as "ready-to-use" web-based software and programming tools which have allowed even those without a computer science background to bring their business concepts to life with a modest cash outlay. The new community of digital media entrepreneurs is targeting several disruptive categories, including:

Advertising Technology

New advertising models allows brand managers to reach their targeted consumer segments via the internet, mobile network or video network. Technologies within this category have quickly advanced since the days of banner ads on the internet. Sophisticated marketers and advertisers are now using contextual logic to have their advertisements strategically placed with relevant content. Notable NY venture backed companies include: Doubleclick.com, AdMeld, Oddcast, Quattro, Tacoda, Targetspot, and Proclivity Systems.

Social Networking Innovations

Technological advancements are carrying social networking a step further to include features that utilize location-based and real-time data, often involving pushing content onto mobile devices. Notable venture backed companies include: Four-square, Tumblr, Meetup and Outside.in.

Content Navigation

User experience innovation centers around content navigation. These technologies are geared to make

New York Metro Start-Up Clusters

Flatiron - Meatpacking

Location: Flatiron to Meatpacking
Why: Converted warehouses and relatively low rent
Home to: Google, Martha Stewart Living, Betaworks, LearnVest, Pinch Media, Medianet, Tremor Media, Quantcast, and more

Lower Broadway

Location: Union Square to Canal Street
Why: Smaller offices ideal for 10 to 40 employees, proximity to NYU
Home to: AOL, Tisch School, Daylife, Quattro, Lime Wire, Meetup, Open Road, Dogpatch, and more

New Jersey

Location: Hoboken, Jersey City, Central Jersey
Why: Cheaper rent and close to Manhattan



• Clusters provide an opportunity for entrepreneurs and also venture capitalists to catalyze innovation and reinforce willingness to take risks
 • The concentrated urban environment of New York can foster rich venture communities, networks and idea exchange

Brooklyn

Location: Williamsburg and DUMBO
Why: Cheaper rent and close to Manhattan
Home to: Boxee, Etsy.com, Gilt Groupe, Outside.in, Drop.io, and more

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content suggestions based on variables such as social networks or individual preferences. New York based companies pursuing this category include: Boxee, Fanfeedr and Feedtrace.

Shifts in ad spend to the internet and mobile space by traditional media companies is partly driving the digital media revolution in New York. Conveniently, many of these traditional media companies are based in New York and represent future acquirers of New York-based startups. Since 2007, traditional media and advertising companies have spent over \$3 billion in acquisitions. This wave of convergence between old and new media could present exit opportunities and lucrative returns for start-ups. Also present in New York are plenty of large private equity and leveraged buyout firms. These firms also represent future acquirers of New-York-based startups as they look to move downstream in the absence of leverage for larger deals.

The NY Start-Up Landscape

The New York venture capital ecosystem is a vibrant and active one today. The region's resurgence, driven by digital media technology and the convergence of old and new media, has manifested itself in the formation of startup clusters. Various regions of the city feature differentiated talent pools, offer unique cost benefits, and are home to a variety of established corporations, all of which startups find highly attractive.

This development of startup clusters is evident, especially in the Flatiron and Meatpacking districts. (See Exhibit: "New York Metro Start-Up Clusters on Page 1"). Established institutions in that area, such as Google, AOL and NYU-Tisch School of Interactive Telecommunications, have spurred a new wave of talent highly proficient with digital media technology. The area also offers more affordable office space by way of converted warehouses and lofts.

One other major concentration

of startup activity is in DUMBO (Down Under the Manhattan Bridge Overpass), Brooklyn. This once industrial area has emerged as one of New York City's "artsy" neighbors filled with art galleries, Wi-Fi enabled cafes and scenic parks – elements attractive to the creative nature of start-up employees. This neighborhood exudes creativity and features real estate costs that are relatively inexpensive compared to mid-town Manhattan.

Within these clusters, experienced angels, venture capitalists and even serial entrepreneurs are catalyzing new business concepts with their investments. Prominent angel investor Ron Conway has allocated a third of his 2009 investment portfolio to New York area start-ups, with investments specifically targeting urban social networking, real-time web services and content navigation. This is positive news for New York startups as angel financings often lay the foundation needed to bring business concepts to life and are a precursor to future venture investment.

In addition to providing capital, angel investors and venture capitalists are helping to expand and sustain the New York venture community through the creation of technology incubators. For example, Betaworks, a hybrid of an investment firm and an incubator, has guided New York entrepreneurs on fundraising to business expansion over the past five years. Betaworks' founders, both ex-Time Warner executives, saw a need to

pull together New York entrepreneurs and create a technology hub similar to labs such as Y Combinator in Silicon or Idealab in Pasadena. More recently, Polaris Venture Partners created Dogpatch Labs in New York to offer physical office space for aspiring entrepreneurs. Above all, Dogpatch serves as a community for likeminded entrepreneurs to openly exchange ideas, build networks and collaborate on projects.

Venture Capital in the NY Metro

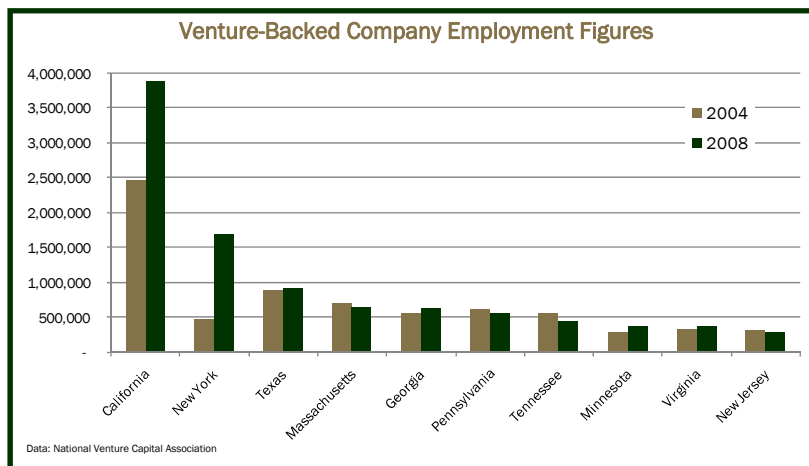
New York's emergence as an entrepreneurial hotbed and a venture capital destination is evidenced first by an increasing number of venture firms active in the city. There are numerous New York-based early-stage venture firms, most with a focus on digital media that have raised funds in the last few years including Bessemer Venture Partners, DFJ Gotham, FirstMark Capital, Greycroft Partners, Milestone Venture Partners, RRE Ventures, Union Square Ventures and Venrock. These firms, along with select firms from the broader venture community, have been a driving force behind the growth of venture funding received by New York-based startups. Investment data from PricewaterhouseCoopers and the NVCA shows that venture capitalists' focus on the New York Metro region has been increasing steadily over the past few years on a relative basis. In 2007, venture capital investment in New York represented just 6% of the US

total. This figure increased to 7% in 2008, 8% in 2009 and in the first quarter of 2010, venture investment in New York jumped to an impressive 12% of the national total.

One of the reasons why New York area startups have been attractive is that they have been relatively efficient in the deployment of human and financial capital. Despite lagging behind Silicon Valley and New England in terms of investment, New York State ranked second with 1.7 million people employed by venture-backed companies in 2008 (See Exhibit: "Venture-Backed Company Employment Figures").

Additionally, New York outpaced every state except for California in terms of revenue generated by venture backed companies with a total of \$329 million in 2008. New York venture-backed companies have also performed well when it comes to liquidity. According to M&A and IPO data from Thomson-Reuters, New-York based companies represented 9.8% of venture-backed exits in dollar terms between 2000 and 2009, materially higher than the proportion of venture investment the region received.

The start-up and venture momentum in New York is clearly building. Fairview has been and will continue monitoring the region's growth as it relates to venture capital opportunities. We have seen increased attention being given to New York by not only New-York-based venture firms but national firms as well. The trend is evident in Fairview's venture capital portfolio: in 2009, exposure to New York-based companies increased by 29%. We believe that vital game changing forces for entrepreneurial growth are present in New York and look forward to continued technological innovation emerging from the region as it solidifies its place as a venture capital destination.



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