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BANKING & FINANCIAL SERVICES

Angels' Eyes: In shadow of big VC deals, small investors keep entrepreneurs supplied with capital

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Mike McKibben has spent the last six years taking his Westerville-based company through an intensive research-and-development phase.

Leader Technologies Inc. has products on the market and is generating revenue, which is more than can be said for a host of former tech firms that lured in venture capital only to implode when the dotcom bubble burst in late 2000.

Instead of subsidizing his company with money from venture firms, McKibben did it with the help of 200 angel investors, who invested almost \$9 million in increments of \$25,000 to \$100,000 apiece.

"Ever since day one and all the way through the dotcom phase, I believed in fundamentals," says McKibben, who is a

civil engineer by trade.

"When you saw those serial entrepreneurs flip companies so quickly, you start thinking - maybe that's the new model," he says. "Hindsight says we were right, although we were doubting our sanity at the time."

McKibben says Leader Technologies, a maker of software for Web-based business intelligence and communications services, wouldn't exist today if it weren't for all those angels who took the risk.

And a growing number of entrepreneurs like McKibben are avoiding venture capital deals, making angel investing the most vigorous private equity sport in Columbus.

"Angels are the only game in town now, really," says Mike Mizesko, a principal with Applied Performance Technologies, an IT outsourcing business in Columbus, and the former president of OhioAngels.com, a Web portal for angel investors and entrepreneurs.

Mizesko was an angel himself in the late 1980s and early 1990s.

Taking the plunge

Angels are capitalistspeak are high-net worth individuals who provide companies with funding and help make contacts and provide business advice.

Their infusions typically are less than the millions shelled out by venture firms, although both ways of investing are similar in that equity stakes in the companies are exchanged for cash.

The Greater Columbus Chamber of Commerce estimates that about 100 accredited angels from Central Ohio are making deals. Being accredited means the investor has joint income of \$200,000 a year or joint net assets in excess of \$1 million.

While venture firms have spent much of the last few years nursing companies already in their portfolios, making them more judicious about new investments, angels have stepped up.

That includes Rich Langdale. Since he received a big payout from selling a majority stake in SubmitOrder to California venture capitalists, he is pursuing his role as one of the city's most active angels.

"The economy has made (his investment company) NCT Ventures more active instead of less active," Langdale says. "We had sold the things in our portfolio that would have been the most work.

"SubmitOrder - it would have been a lot of work to keep that alive, even though we think we could have done it," he said.

Langdale amassed some of the money he uses for angel deals by selling a majority ownership position in Lewis Center-based SubmitOrder via a late-1999 venture deal valued at \$75 million.

Later, the Internet retailing fulfillment company's management team was restructured by the venture capitalists and SubmitOrder, which all told received about \$400 million in funding, went out of business in 2002.

But Langdale, who has invested in 15 businesses, says he doesn't regret the experience.

His investment philosophy has, however, changed.

Langdale is active in the Center for Entrepreneurship at Ohio State University's Fisher College of Business, where he examines dozens of business plans.

"Because of the center, we're investing in a lot of other people's ideas now, instead of our ideas," he says. "So, now, it's a lot of little investments as opposed to one big ones like SubmitOrder that we put millions into. We're doing the

types of investments where you put in \$300,000 to \$500,000."

Staying relevant

Companies of all stripes are using angel money to develop products, hire sales staff, buy equipment and lease offices.

Armada Group Inc. in Westerville used a 2001 angel investment of \$250,000 to create a pilot project for the Powell Police Department. That project was critical to helping the company validate its technology.

Armada's product allows police to retrieve data from criminal justice information sources, permitting departments to share intelligence across jurisdictional boundaries.

Secure Interiors, a computer network security firm based at the Business Technology Center in Columbus, also used angel money to get started in 2000.

Others area firms receiving angel funding include Resolution EGS, FourthChannel, LeadScope and EC Next.

Angels' display varying motives for risking their money in the hopes of turning a profit.

John Huston is one of the area's newer angels. After working at five banks in five cities in the span of 30 years, he retired in Columbus and became an private investor in 2001.

"I had spent an awful lot of time looking at loan requests, which are very similar to business plans - you give me this money and this is how I'm going to pay it back," Huston says. "So what happened to me is that I went through deal withdrawal.

"My wife and I are going to stay here for the rest of our lives, so I thought, how can I give back to the local community," he says.

Huston has invested in six companies and says he's tracking two dozen more. He's also having more fun, professionally.

"You have to get disconnected from the money," Huston says. "You could go crazy if you evaluated everything solely on monetary terms. There's a huge risk, and serial entrepreneurs usually strike out many times in their life anyway."

Another motive for Huston: He hated retirement.

"What killed me is you tend to feel irrelevant and your ego says, 'Wait a minute,' he says. "If I'm sitting on the sidelines and playing a bunch of tennis and doing a bunch of traveling, you almost feel guilty; you lose your whole sense of self worth."

Langdale had a similar experience. After getting his "exit" at SubmitOrder and another company, Digital Storage, a distributor of computer-storage media and accessories, Langdale says he didn't need to work anymore.

"I also knew that if I started another company that it would take me away from my family," Langdale says. "But I also felt the need to be around companies that were getting started."

Huston says Central Ohio is rife with entrepreneurs who have crafted young companies around myriad business ideas.

"But the number one missing ingredient in Central Ohio is an extremely well-coalesced angel community to jump-start all those great ideas," Huston says. "It would be a shame if we had entrepreneurs who didn't bring their ideas forward because they didn't know where to start."

One of those starting places, he says, is the Columbus Venture Network, an arm of the Columbus chamber of commerce that will work with entrepreneurs on their business plans and help them network with investment angels.

More than money

Mizesko remains active in brokering relationships between angels and entrepreneurs in Central Ohio. His work as the author of *Angel Sightings*, a 1999 report sponsored by the state, highlights how important private investors are for fledgling companies.

Mizesko's findings showed that, from 1995 to 1998, 86 percent of Ohio companies with sales of less than \$3 million received private equity funding from accredited angel investors in Ohio.

"It's the angels who have great Rolodexes, who can become advocates and use their contacts to deliver revenue opportunities for their ventures," Mizesko says.

Doug Clay has done exactly that for Leader Technologies. In 2001, the former business manager of Ohio State University's athletic department made an undisclosed investment in the company.

But Clay's role hasn't been all about money. His contacts have brought Leader Technologies other investors. He also works part time at the company, helping with administrative tasks.

McKibben says other angels have supplied equipment or introduced Leader Technologies to other companies that have become sales affiliates.

"Some are passive and we never hear from them," McKibben says. "But as often as we can, we like to get that network working for the sake of the whole."

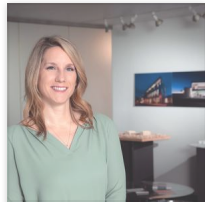
And, as VC firms are obligated to do, Clay isn't pressing McKibben for an exit on his investment.

"I expect this to be an inheritance for my kids," Clay says. "As an investor, I'd like to see the return. But I'm a very conservative person and would not rush to the finish line

and take the low, quick dollar. I'd much rather see the large dollar and the investment solid."

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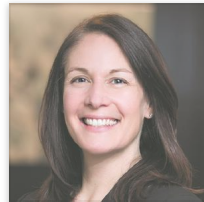
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