MONEY MAGNETS

Some local companies are having success attracting investment funding. These businesses include:

FALLBROOK TECHNOLOGIES INC

Investment raised: $95 million.

Top investors: Macquarie Capital Markets, Ngen Partners, Robeco.

Year founded: 2004.

CHUMBY INDUSTRIES

Investment raised: $29 million.

Top investors: Avalon Ventures, JK&B Capital, Masthead Venture Partners, O’Reilly AlphaTech Ventures LLC.

Year founded: 2006.

ECOATM

Investment raised: $14.4 million.

Top investors: Coinstar Inc., Claremont Creek Ventures, Silicon Valley Bank.

Year founded: 2008.

AMBIT BIOSCIENCES INC.

Investment raised: $105 million.

Top investors: Apposite Capital LLP, MedImmune Ventures, OrbiMed Advisors LLC, Radius Ventures.

Year founded: 2000.

PEREGRINE SEMICONDUCTOR CORP.

Investment raised: More than $120 million.

Top investors: Morgenthaler Ventures, Ridgewood Partners LLC, Advanced Equities, Wasserstein Ventures.

Year founded: 1990.

While investment funding for local startups lags behind pre-recession levels, NewBlue Inc. and other San Diego startups are discovering that investment capital is available for companies with compelling technology or seasoned management teams.

Launched in 2002, NewBlue is developing software that allows smart phone users to more easily edit and post videos to social networking sites.

Though self-funded to the tune of $100,000, NewBlue has its eye on much larger horizons, and is seeking a strategic partner that can provide the money and the connections to take it to another level.

Co-founder Melissa Jordan Grey and her husband, Todor Fay, just moved the business into office space in the University Towne Center area through EvoNexus, an incubator that helps startups.

Grey said she visited five Silicon Valley venture firms or funding arms of technology companies seeking new money last fall. In the process, she realized it would be better to wait awhile, since the software NewBlue is developing, Vibop, wasn’t quite ready yet.

That day is coming, perhaps as soon as six months, and then the search will begin in earnest. Grey said her optimal strategic investor would come from one of three segments: mobile electronics, social networking or the Hollywood entertainment media industry.

As for the funding amount NewBlue is targeting, $2 million should provide “a terrific runway for our next phase of growth,” she said.

Finding the right partner shouldn’t be that difficult, said tech insiders, given the experience and track record of Grey and Fay.

The couple launched a music file sharing business that was acquired by Microsoft Corp. in 1995, and worked at the software company before launching NewBlue.

Online Attention

That experience, plus working in the uber-hot social networking space, should prompt plenty of attention, said several sources.

“Anything that’s online gets more attention these days because it needs less capital and it’s easier to get answers (about a business’s viability),” said Joe Markee, managing director of Express Ventures, a local fund providing seed capital to early stage companies.

Markee is a seasoned entrepreneur who has held executive level jobs at Linkabit (precursor to Qualcomm Inc.), Primary Access, Copper Mountain Networks, Figure 8 Wireless, and is currently chief executive at Cluster Corp. He said funding for early stage companies is extremely tight in the post-recession, and companies have to work much harder to get it.

At one point, when Express was still looking at potential candidates for investments ranging from $500,000 to $1 million, Markee’s board was getting about 10 inquiries a week. But that stopped this year when word got out that the fund was tapped out.

“We had eight companies in our portfolio when it was launched (in 2006). Now we have five. Three didn’t make it,” Markee said.

The approximate investment into those failures was about $2.5 million, he said.

“You have to be a really good, quality business, and most one- or two-year-old businesses usually don’t have the track record or the balance sheet or the collateral to get the type of loans they need,” said Tim Bubnack, partner in Huntington Capital, a San Diego private equity firm that finances companies with revenue of $5 million to $50 million.

Easy Money?

Chumby Industries is a firm that didn’t have to work hard for its money, mainly because one of its founders, Steve Tomlin, is a partner in Avalon Ventures, which raised $200 million in December.

Chumby makes a device that can stream a user’s selected Web sites on a variety of devices, but has moved into more of a pure software business of late, said Chief Executive Officer Derrick Oien.

Launched in 2006, Chumby got $5 million in first-round funding, and obtained several additional rounds to bring the total invested to about $29 million, Oien said.

The investment team now consists of four venture firms, four or five individual investors, and one strategic investor (also a contractor), Marvell Technology Group Ltd., a Santa Clara chip maker.

All of these investors will be looking for a payout when Chumby issues stock or is acquired by a larger entity, he said.

There’s been a big shakeup by many venture firms in the last couple of years, Oien said. “They were doing a lot of house cleaning,” he said. “They were focused on figuring out who the winners were, shooting the losers, and moving on.”

Nikhil Varaiya, a finance professor at San Diego State University, said very few startups qualify for venture capital, perhaps 3 percent to 4 percent. Out of the gate, the great majority use their own money, and that of friends and family, and sometimes a few angel investors.

Convincing individuals that a business is on the right road is certainly getting tougher, Varaiya said. “For certain sectors, social media for example, there’s a lot of interest, but investors are more cautious than in the late 1990s before the dot-com meltdown. They want concrete evidence that a firm is profitable or on the way to profitability.”

Help From Banks, Angels

Bubnack said banks making loans guaranteed by the U.S. Small Business Administration have been more active lately in providing financing to startups. But in nearly all cases, borrowers have to pledge hard assets, such as houses, to qualify for the loan.

Buzz Kreppel, senior relationship manager at the San Diego office of Silicon Valley Bank, said the $17 billion asset lender is focused on helping technology startups and can count about 300 such customers locally.

Most of SVB’s customers have arranged at least some angel financing and are seeking a loan for less than three years, Kreppel said.

In some instances, the borrowers can repay the loan with cash and stock warrants the company issues, which the bank can cash out if the company is acquired or goes public, he said.

Asked what kinds of companies are qualifying for venture funding, Markee said, “In general, it’s somebody who has built a better mousetrap or has some capability that nobody else has.”