





Onthe Winss of angels

Somehow, in the middle of the great recession, the Bay Area technosphere is booming again. **DIANA KAPP** explores the spirited new economy and the next-generation investors who are rebooting Silicon Valley ingenuity—and, quite possibly, the American way of life.

PLUS: THE 25 TECH ANGELS, 11 GOOD ANGELS, AND 18 GEEKS EVERYONE WANTS TO FLY WITH

PORTRAITS BY CODY PICKENS

and the audience—every angel investor and VC partner of note in the Bay Area (i.e., the universe)—falls silent. For a second or two, it's almost possible to believe that no one is tapping, clicking, texting, tweeting; everyone is just watching, listening, waiting to be wowed.

It's Demo Day, the graduation party in Mountain View for the latest crop of entrepreneurs launching from Y Combinator, the hottest startup incubator in tech. Someone once called the event "American Idol meets Wired," and that feels about right, except that instead of a record deal and a People cover, the stakes could be the next worldshaking Facebook, Twitter, or Apple. "I'm standing in a room with the future of the tech industry," says 21-year-old hacker Andrew Sugaya, who wears a burgundy MIT track jacket and is here to pitch his company, his eyes as big as those ancient floppy disks that were out of date before he was born. "I don't even know what to say."

Despite the recession almost everywhere else, the people in this room are in the throes of a gigantic if still largely undetected (outside the technosphere) boom. And Paul Graham, the 46-year-old painter turned technologist turned geek whisperer who launched Y Combinator in 2005, has made Demo Day a phenomenon, the most thrilling thing going in a Silicon Valley that's been seriously feeling the recession. Soon to take the stage, one after another, for two-and-a-half-minute pitches, are the incubator's current group of entrepreneurs: the overachieving technologists behind 36 startups, including the winner of the "most ruthlessly efficient killer" programmer award at MIT, two Rhodes scholars, and a 20-year-old woman who launched her first company at age 13. Graham and his three partners picked them and their ideas from many thousands of applicants (a slot is harder to snag than a place at Harvard); provided seed funding of \$15,000 to \$20,000 per company to cover ramen, Red Bull, and a place to crash in the Bay Area; then gave them three months to see what they could do-with constant guid-

What they have done is remarkable, especially if your only point of reference is the instantly bloated startups of the dot-com era. In just 90 days of boot-camp-intensity work, they've finalized their products, incorporated into companies, gotten advice from Silicon Valley luminaries, and even gone beta or fully live. A quarter of the 36 companies are already profitable. While this isn't necessarily saying much—with minimal expenses, all you need to become "profitable" is a small customer base—these outfits are certainly less financially

THESE GUYS HAVE THE POWER TO SWOOP IN FROM ON HIGH AND GRAB THE DEALS THAT LESSER ANGELS CAN ONLY ENVY.

Marc Andreessen, ANDREESSE HOROWITZ

How big is his fund: \$950 million total, in two funds. Cred: Serves on boards of eBay and Facebook; chairman at Ning, which he cofounded in 2005; cofounder of Netscape which launched the Seeds: 28 currently (before that, he and cofounder Ben Horowitz invested in many other companies going back to

2004).

How he thinks: "I sit down at my desk before I go to sleep, pull up my to-do list...and pick out the 3 to 5 things I am aging to get done tomor row. I write those things on a fresh 3x5 card, lay the card out with my car keys, and go to bed. Then, the next day, I try like hell to get just those things done. If I do, it was a successful day! Super bets: Aliph: Linked-In; Twitter; Foursquare. Typical tweet: His one and only tweet, back in 2007, was "twittering!"

Ron Conway,

How big is his fund: \$20 million. Cred: A rep so towering that 5,000 or so people refer deals to him. Seeds: 500, with more than 200 exits. How he thinks: "I love it when we invest in a company with an 18vear-old because it's going to be much more exciting. The world is their oyster, and anything's possible in their minds. That is the best entrepreneur ever. Super bets: Google; PayPal; Ask Jeeves; Good Technology; Facebook; Zappos. (But he turned down Salesforce.com, to his eternal regret.) Twitter followers 1,953-though he has

Reid Hoffman,

yet to tweet.

How big is his fund: \$20 million of Greylock's money to play around with. Cred: Cofounder of

LinkedIn; former exec at PayPal. Seeds: 80+ investments (and that's pre-Greylock). business plans ever pan out like their owners

intend. PavPal started as a plan to beam payments between Palm Pilots... After five minutes of a pitch, I know if I'm not going to invest, and after 30 minutes to an hour, I generally know if I will." per bets: Facebook: Zynga; Digg; Flickr. 16.015.

Typical tweet: "What is hard about making decisions: making decisions reduces opportunity in the short term. but decisions mean long term opportunity."

Peter Thiel,

How big is his fund: \$250 million. Cred: Cofounder of PayPal; first outside investor in Facebook. Seeds: Hard to say, but 36 through Founders Fund alone.

How he thinks: "The angel-VC thing feels very crowded. To invest you want to always be fundamental and contrarian, and while I think there's a fundamental story of how the Internet's going to grow, it's not as contrariar as it was three or four years ago." Super bets: Facebook;

Twilio; SpaceX; Spotify. Twitter followers: 420, also without posting a single tweet.



precarious than the 1990s startups headed by Stanford MBA types who burned through millions in cash raised from Sand Hill Road's storied venture capital firms while having no clue how they'd get revenue. A new model of creating companies, one rooted in perpetual experimentation based on customers' real-time feedback and likely resulting in more ka-ching and less roadkill, explains why Graham and his partners are already among Silicon Valley's leading celebrities and why Demo Day is packed. It also explains why the old guard of venture capital—the VCs who helped create some of the most transformational companies on earth—want in on the action. The next gangly, irreverent geek who will be worth billions of dollars and a full-length feature film by the time he's 25 may be up onstage.

The truth is, it's now dirt cheap to start an Internet company. All you need is a good idea, some basic coding know-how, and a little money. And guess who has enough money to fund these kinds of ventures in their earliest stages—to be guardian angels of the newest new thing? Well, pretty much everyone in Silicon Valley who's had even a modest hit in the past 10 years.

So here they all are at Demo Day, looking to place bets. Retired Googlers and PayPalers, of course. Nearly all the top "super angels," such as Naval Ravikant, who controls millions he raises from other Valley moguls, some of them prolific angels themselves. VC god Michael Moritz, of Sequoia Capital. White-haired Ron Conway, "the Zelig of the startup world," as one investor calls him, leans against the side wall, holding court about the 500 startups he's backed. A bunch of celebrated VC firms—those that put early money into Microsoft, Oracle, PayPal, and eBay—have sent younger associates, as has Marc Andreessen, the Netscape cofounder whose nearly \$1 billion in funding, at least some of it devoted to seed investments, makes his firm the center of this universe. Reid Hoffman couldn't be here, but he already met all the entrepreneurs over dinner. The LinkedIn cofounder put early angel money into Facebook and social-gaming phenom Zynga, which suddenly has 1,200 employees in Potrero Hill (a few predict it could grow bigger than Facebook).

Some of Twitter's early angels are in the crowd, the seers who were crazy-smart enough in 2007 to see that 140 characters can do a lot more than tell friends what we had for lunch, such as broadcast accounts of a hotel bombing in Mumbai seconds after it happened.

They are sitting on riches (Twitter is valued at up to \$5 billion) but still haven't gotten a penny out of the investment, although that bet alone has earned them renown—in these parts, as much as or more than the guy sitting in the sixth row. He invested in Flipboard and is now promoting the hell out of another investment, the Twitterlike photo site DailyBooth: Ashton Kutcher. With him is his wife, Demi Moore.

Up front, Graham checks the sound. He didn't dress for the occasion. He wears his usual khaki shorts, blue polo shirt, and Tevas, a fitting uniform for a guy who no longer has anything to prove. Y Combinator now runs its Demo Day in triplicate to meet investor demand.

Silicon Valley is no longer that Silicon Valley, Graham contends not the place where VC firms rule alone, not the place where middleaged Republicans were the only angels, and they would invite their entrepreneur pals to their homes in Atherton or Woodside and write a check. "It's a venture world where nothing changed for 30 years," says Graham. Now, suddenly, the angels are barely older than the kids they are desperate to fund, and they meet their CEOs over wine at District, in SoMa, or for a beer at Antonio's Nut House, in Palo Alto (assuming the entrepreneur is old enough to drink). Goofy idealism fills the air, as does the sense that what's cool is a computer jock with a juicy idea who sleeps on an air mattress—and that clout comes from being tight with him.

The presentations are rat-a-tat fast. I watch as Andrew Sugaya touts his platform, Teevox, which turns an iPhone into a remote for selecting online movies and shows. The three entrepreneurs behind Rapportive—a free browser plug-in that makes your Gmail account look and act like Facebook—report that they already have 40,000 users. Before arriving, I'd heard so much about the intensity on this island of boom that I'm looking for the now familiar signs of a cynical bubble. While "here we go again" does run through my brain, I'm surprisingly compelled by the scene and the smart people dominating it. Maybe it's not great that our best and brightest's big dreams are to create a newfangled online flight-reservation system or a remote designed to make us even bigger couch potatoes. Still, I haven't felt this much can-do energy outside of AT&T Park in a long time. All these adorable geeks need is to be believed in, and to be handed \$50,000 checks by guys who could be their big brothers. ▶



VETS OF SOME OF WEB 2.0'S **BIGGEST SUCCESS STORIES,** THEY'VE PROVED OVER AND OVER THAT THEY STILL KNOW HOW TO PICK 'EM-FOR THEMSELVES AND FOR THEIR **INVESTORS**

Steve Anderson,

BASELINE VENTURE

How big is his fund: Unknown. Cred: Kleiner Perkins; Starbucks; Microsoft; еВау. Seeds: 37 Hit rate: 10 exits.

How he thinks: "Don't worry so much about figuring out the 'path'. Make decisions. Go. Try. Super bets: Twitter (which acquired another of his bets. Mixer Labs): Aardvark (sold to Google); Parakey (to Facebook); Formspring; Rupture (to Electronic Arts).

Twitter followers: 542.

Typical tweet: "Quote

from an iPhone dev: 'Apple is like the drunk abusive husband. you never know when they are going to come home drunk and smash skulls.

Jeff Clavier,

How big is his fund: \$15 million. Cred: 22 years in enterprise software as an entrepreneur, senior exec. or VC: dubbed one of the 13 "Web 2.0 King Makers" by the late Business 2.0. Seeds: 59 since 2007. Hit rate: 16 exits.

help people fulfill their dreams and, if we can, make some money along the way." Super bets: Mint (sold to Intuit for \$170 million); Userplane (to AOL); MyBlogLog (to Yahoo!); Kaboodle (to Hearst): Maya's Mom (to Johnson & Johnson's BabyCenter). 12.055 Typical tweet: "I just ousted @ifindkarma

How he thinks: "We

as the mayor of Gyros Gyros on @foursquare! http://4sq.com/6cFXFb."

Cred: Ex-eBay top exec; Stanford prof; "the startup whisperer." Seeds: 29 portfolio companies on the Harrison Metal site. Hit rate: 5 of those 29 have been acquired.

HARRISON META

He won't say.

How big is his fund:

How he thinks: Friendly but notoriously tightlipped-you have to take one of his courses. (sample title: "Creating Infectious Action" Super bets: AdMob

Aardvark, and DocVerse

(all acquired by Google); Michael Dearing, Xoopit (by Yahoo!);

Twitter followers: 564. Typical tweet: "Open tweet to @mikebloom berg: Please can't you come to California and be the governor?"

Mike Maples, FLOODGATE FUND

How big is his fund: \$73.5 million. Cred: One of Fortune's Eight Rising VC Stars in Ž008. **Seeds:** 38. Hit rate: 6 exits. How he thinks: Referencing Godzilla, he looks for "Thunderlizards"-"a company that disrupts its



industry, earns a 100fold return, and makes up for all of a fund's bad bets." But of consumer Web 2.0, he warns: "It's starting to get a little played out." Super bets: Chegg (textbook rental site); Digg; Twitter; partnering with Stanford lecturer Ann Miura-Ko (according to Forbes, "the most powerful woman in startups"). He was also an entrepreneur in a broadband-software play that IPO'd in '04. But nobody's perfect-he passed on Zynga. Twitter follo 3,654. Typical tweet:

"Pondering: which eagles song was better 'sad cafe' or 'new kid in town'? A very tough

Dave McClure,

500 STARTUP

How big is his fund: He's raising \$30 million. Cred: One of those PayPal mafiosos. **Seeds:** 100 in the past 2.5 years. Hit rate: 6 exits. How he thinks: "Invest early at low cost in people who you think are smart and have built some promising products, know how to iterate, and understand conversion metrics." Super bet: Mint. Twitter followers: 36,373. Typical tweet: "so if i

make the Economist as a SuperVillain/Super-Devil VC, should i still show my Mom? #Just-SpellMyNameRight."

Naval Ravikant

How big is his fund: \$22 million. Cred: Epinions founder and serial entrepreneur. **Seeds:** 50.

Hit rate: 5 exits. How he thinks: To paraphrase: Have humility; be dispassion-

ate; build your personal brand; don't move in a herd but do be a pack animal. And remember: Not everyone has all the information. Super bet: Twitter. Twitter followers: 4,014. EDT. Brain shutting down. Heart rate slowing. Fingers going numb. But somehow...

Chris Sacca,

still tweeting."

LOWERCASE CAPITAL

How big is his fund: He's cagey about details, but he claims funds in excess of

\$200 million. Cred: Google's former head of special initiatives; "possibly the most influential businessman in America," says the Wall Street Journal. Seeds: 40. Hit rate: Says he then adds, "I have had

doesn't keep count, substantially more money come out than ao in."

How he thinks: "I only work with teams I'm proud to work with." Super bets: Twitter; DailyBooth; Posterous; 280 North (acquired by Motorola).

Twitter followers: 1,305,712.

Typical tweet: "I bust Zuck's balls frequently, as you all know. But, I think his \$100m gift to public schools is honorable."

Aydin Senkut,

How big is his fund: \$40 million. Cred: Google's first product manager. Seeds: 60.

Hit rate: 16 exits. How he thinks: "Our mission is to be

disruptive in a field where most existing players have hardly

changed the way they operate." Super bets: Mint: Tapulous; Disqus. Twitter followers: 4,367.

Typical tweet:

"3 success factors from a delta force commander (Peter Blaber): innovation, adaptation, audacityit's so true."

The devil you know

THEY MADE THEIR NAMES AS VENTURE CAPITALISTS, BUT THEY CAN FLY LIKE ANGELS, TOO-ALTHOUGH THE BEST KNOWN OF THEM IS STILL EARNING HIS WINGS.

John Doerr,

KLEINER PERKINS CAUFIELD & BYERS How big: As big as they

come; just announced

a \$250 million fund for social-network startups Cred: Claims that in his 30 years as a VC. companies he's backed have created 150,000 jobs. VC deals: Amazon: Google; Intuit; Compag; Amyris Biotechnologies; Bloom Energy. How he thinks: "[Great entrepreneurs arel missionaries, not mercenaries. Mercenaries are motivated by financial statements: missionaries are all about value statements. Mercenaries have got an incredible lust for making money; missionaries are interested in making meaning-and also money."

Kevin Efrusy, ACCEL PARTNERS

How big: \$1 billion to invest in the U.S. alone. Cred: Former Kleiner Perkins entrepreneur-inresidence: former CEO of IronPlanet (annual gross \$500 million); brought Facebook to Accel.

VC deals: Groupon; BranchOut; Metacafe (whose cofounder Eyal Hertzog has said, "Working with [Efrusy] is the

first time I'm getting real value-add from a VC"). How he thinks: "You have to pick your poison, take risks, and stick your neck out-that's what our business is about... We try to do things that are really, really early and help build these teams when we can."

Sameer Gandhi, ACCEL PARTNERS

How big: \$480 million in Accel's growth fund alone. Cred: Former Seguoia Capital partner; led deals with eHarmony and Gracenote (sold to Sony for \$260 million). VC deals: Dropbox; StumbleUpon; Quidsi (parent company of Diapers.com and Soap.com). How he thinks: Must be the strong, silent type, because we couldn't find a single quote worth printing.

Greg McAdoo,

How big: Sits on 9 boards. Cred: Former president and CEO of Sentient Networks (acquired by Cisco, alongside another company, for \$445 million). VC deals: Bump: Image-Shack: Loopt: PowerFile: RockYou-and the hot-

test incubator out there,

Y Combinator.

How he thinks: "At the end of the day, without that great [market] wave even if you're a great entrepreneur, you're not going to build a really great business." The company should be able "to create an inferno with a single match."

David Weiden,

How big: The firm is huge: as an individual angel, he's planning at least four deals at about \$500.000 each this year (or so he told AngelList). Cred: Worked with what are now T-Mobile and Verizon while at Morgan Stanley in the '90s; early employee at Netscape and AOL; advises Slide

(recently bought by Google for \$228 million). VC deals: Bitfone; Good Technology; Ingenio; LogMeln; Opsware; Tellme: iLike. How he thinks: "My perspective on angel and VC investors is shaped by my own experiences as an entrepreneur on

the firing line, trying to

get revenue in the door."

[that] aspire to be worth

billions."

He looks for "companies

One Valley veteran told me that this is how venture capital used to work, one entrepreneur helping another—a celebration of pure innovation.

It's only later that I learn that, despite the anticipation filling the Demo Day hall, nearly half the presenters arrived needing even less than I'd thought. They had already gotten most of the checks they needed, because the coolest of the cool angels had cherry-picked the best deals on the downlow, with Graham's help. Oh well. Worse things have happened than investors' cutting in line to make small bets on companies with early traction. Worse things we all remember.

RON CONWAY SAYS THERE IS A MISCONCEPTION THAT "EVERY

10 years, we get a Google. That's not true." After Facebook, it took only two years until Twitter, he says, then another year after that before Zynga. "Great companies are being created at a much greater rate," he adds. In the Bay Area, the homepages of hundreds of small companies boasting iPhone apps, social-media platforms, and mobilephone enhancers can't stop shouting, "We're hiring!"

Tech as a whole has had serious problems since the dot-com implosion, but this ecosystem of lean-and-mean startups has rekindled hope. "Let me contend that this is a historic moment," Stanford School of Engineering consulting professor Steve Blank tells me. "The business and economic consequences of the Internet are finally starting to be seen. The chickens have just come home to roost." Then, clearing his throat: "This is the last outpost of American ingenuity." Angel Naval Ravikant, who sits toward the back at Demo Day so he can multitask, agrees that we're witnessing the reinvention of Silicon Valley. "It is happening with a tidal wave," he says. "It's happening right now."

A handsome man of 36 with wavy jet-black hair brushing his shoulders, Ravikant becomes my guide to this new economy. He is a prominent super angel—a VC firm of one—who, all told, has invested in almost 50 startups, including a dozen Y Combinator companies. (He's a veteran of seven Demo Days.) Early this year, he sealed his reputation by launching AngelList, essentially Match .com for entrepreneurs and investors to meet and do deals. The site has attracted 450 angel participants and has led to nearly 100 investments in startups. "I feel like now, because of AngelList, I get into any deal, because I've sent out so many deals," Ravikant says, sounding relieved. He's a likable guy, very down-to-earth despite his determination to get to the top of the angel pecking order.

Ravikant's life is a blur of blogs and tweets as he sprints around the conference circuit. He works three devices simultaneously: iPhone 4, iPad 3G, 11-inch MacBook Air. "I work all the time," he says. "I'm home, I'm driving, I'm at a party—I'm always on my iPhone. If I'm there, it's my workspace." That insane pace is necessary because you can't be perceived as an insider if you can't keep pace with 23-year-olds mainlining Rockstar. Just last year, because he hadn't developed early ties with the entrepreneurs involved, Ravikant was shut out as a seed funder of both DailyBooth, the Y Combinator company in which Kutcher invested, and Foursquare, the hyped social-media site where users constantly update their location via smartphone. "[Being cut out] was a huge wake-up call," he says. "It's not good enough to make BusinessWeek's top 25 angels" (which he did). "You need to crack the top 10." As a rule, angels are unapologetic self-promoters—no group of people has ever returned my calls and emails more quickly.

The term angel implies "benevolent investor," Ravikant explains. We are sitting in his airy SoMa office space, not far from AT&T







Park, smack in the center of web-startup activity. (The locus of startup mania has shifted again from the South Bay to San Francisco, where Twitter, Zynga, and Foursquare's new West Coast outpost are located.) The concept of benevolence resonates with Ravikant, given his own rather scarring experience with old-fashioned venture capital.

At 25, he was a gifted young technologist who had started the consumer-review site Epinions, which was backed by VCs, the biggest two being Benchmark Capital and August Capital. He can't tell me much about the Epinions deal because he signed a nondisclosure agreement. But a typical VC deal involves two or three venture firms putting in millions in exchange for more than 50 percent of a company—or, if they get slightly less, demanding "protective covenants" that give them veto power over a company's ability to raise more money, sell itself, or change management. VCs also take seats on a startup's board with the logic that young founders are naive and need experienced grown-ups to guide them through the backbreaking work of building a durable, profitable enterprise once the sex appeal has worn off.

In Epinions' case, the company eventually became Shopping .com, and according to court documents, the two VC firms profited immensely from its \$250 million IPO. However, all but one of Epinions' founders made nothing because the VC-backed merger rendered their shares worthless. "Power corrupts," Ravikant says, shoving his hands into his black jeans. "Eventually, when they have too much power, VCs will corrupt your company in subtle ways."

Rather than start another company, Ravikant decided he wanted to become an angel. Light-touch angels have been floating around Silicon Valley for a long while. In the 1960s, businessmen Tom Perkins and Don Valentine started funding their friends and interests as a side hobby; they went on to found venerable VC firms Kleiner Perkins Caulfield & Byers and Sequoia Capital, respectively. Oracle, Apple, and Genentech all started with the help of small checks from individuals.

Unlike VCs, angels pride themselves on not wielding power. They get in earlier, joining together to invest much smaller amounts (\$25,000 to \$500,000 each) so the stakes aren't high enough in any one deal to merit meddling with the company. The concept recalls the 1930s, when wealthy individuals backed Broadway productions and early Hollywood films. Giving the keynote at a confab in Austin, Texas, thrown by an incubator called Capital Factory, Ravikant

(ABOVE)

Digg founder Kevin Rose has taken many CEOsincluding Mark Zuckerberg-to Samovar Tea Lounge, near his home in Hayes Valley, where everyone turns off phones and laptops to just sip and talk. Rose put money into Twitter, Foursquare, and Zynga early.

(OPPOSITE)

The ex-

Actually, ex-YouTuber; Christina Brodbeck was one of the company's early stars before its acquisition by the search giant. "I have a love for risk," she says. "If we as investors are advising founders, we should be good role models and take big risks ourselves" Brodbeck often works out of the Sugar Cafe, on Sutter Street.

YOUNG, RICH, AND VERY SMART, THESE SOLO INVESTORS CAN SPOT A GREAT IDEA A MILE AWAY. THE GOAL ISN'T NECESSARILY TO GET RICHER, THOUGH THEY'D BE FINE WITH THAT.

Christina **Brodbeck**

Cred: YouTube's first user-interface designer; preparing to launch The-İceBreak ("I can't give too many details, but it's relationship focused"). Deals to date: 7. How she thinks: "I like to invest in things that are fun-it's a big thing for me." est bets: Greplin;

HeyZap; InDinero.

Paul Buchheit

Cred: Hire number 23 at Google (where he created Gmail and

coined the company's "Don't be evil" mantra); founded FriendFeed and sold it to Facebook: currently working at Facebook.

Deals to date: Around 50. with 10 or so exits. How he thinks: "There's a tendency for [angel wannabes] to say, 'Wow, that's really great' and want to put in all their money. You shouldn't invesť anything that you would mind losing. Best bets: 280 North: Y Combinator; Opzi; Rapportive: ReMail (acquired by Google); AppJet (ditto); Optimizely,



Dave Morin

Cred: Ex-Facebook and -Apple; CEO of Napster founder Shawn Fanning's hot new startup, Path.

Deals to date: 18.
How he thinks: "Technology will continue to move faster than our ability to set public policy within our current processes. How do we evolve the process to support innovation?"
Best bets: Formspring; Foodspotting; Trazzler.

Ariel Poler

Cred: Investing since 1996; former chair of StumbleUpon; CEO of TextMarks.

Deals to date: 25 since 2005, about 50 since 1996.

How he thinks: "I try not to focus on the most popular areas but on the best things where I can help the most."

Best bets: Strava;
Thumbtack.

Keith Rabois

Cred: Member of the PayPal mafia; executive vice president at Slide (sold to Google); COO of Square; sits on Yelp board.

Deals to date: 55 since 2003.

How he thinks: "There are several companies that, within 30 seconds, I knew were going to work."

Best bets: InDinero; AirBnB; Milo.

Kevin Rose

Cred: Digg founder and site architect; featured on BusinessWeek cover: "How This Kid Made \$60 Million in 18 Months."

Deals to date: 12, with 1 exit.

How he thinks: "I was

an Eagle Scout. I like helping...[but] I have to personally want to use the service."

Best bets: Twitter;

Foursquare; Zynga; Square; Path.

Joshua Schachter

Cred: Founded Delicious (and reportedly made \$15 million off its sale to Yahool); currently in the early stages of launching a new company.

Deals to date: 47.
How he thinks: "[Other] investors are focused on finding the next big thing, but I'm trying to avoid the things that are not going to happen—music startups, for example. Music is an incredibly tough environment."

Best bets: Foursquare;

Square; DailyBooth; Bump; Etsy.

Andrea Zurek

Cred: Early hire at Google; cofounded XG Ventures in 2008. Deals to date: 25, with 5 exits.

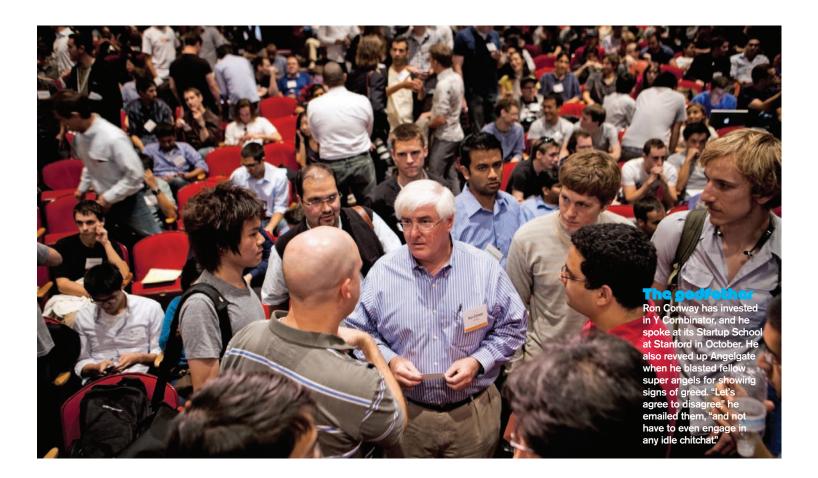
How she thinks: "I think there's greater opportunity than ever right now. The holy grail for me is a local ad-targeting play that really works."

Best bets: Tapulous (bought by Disney);

Aardvark (acquired by Google); AppJet; Plusmo (acquired by AT&T);

Posterous.





admits, "I think of this as charity work." It helps that many of the new angels are rich enough not to sweat losses. Having settled a lawsuit against Epinions' VCs, Ravikant never has to work again.

He started with a dozen personal investments, putting \$10,000 to \$15,000 (and eventually as much as \$100,000) into a few startups. Luckily, Twitter was on that list. In short order, Marc Andreessen and third-generation Silicon Valley VC Tim Draper gave Ravikant funds to invest, while well-known VC firm Sutter Hill Ventures handed over \$10 million, looking for its entrée into Twitter-like scores. Ravikant's emergence as a super angel with his own \$22 million fund made him a pioneer, but in the past year, that path has become a cliché. A glut of ridiculously loaded ex-Googlers and ex-PayPalers, plus techies who've cashed in on YouTube, Delicious, and the 40 companies that Google alone has acquired this year, have joined the parade. As young as 30, often "retired" from their first huge successes, they are becoming angels partly to address their very rational fear of losing touch with such a fast-changing industry.

A lot of what they do involves realizing the potential of an idea before others see it, which makes this a game with a slim playbook: Filter out the thousands of bad ideas, follow your gut on the best ones, then act early, spread your risk, and expect to fail. It's not unheard of for angels to commit money at a first meeting. Super angel Dave McClure, a profane ex-PayPaler whose firm, 500 Startups, is raising \$30 million and has plans to start its own incubator, admits to twice having invested without meeting the founders in person, based solely on instinct and references. "I don't need all the information at the first check," he says. McClure views much of seed funding as an inexpensive way to see what might develop. One VC labels the strategy "cheaply purchased upside optionality."

One key to success is whether you are friends with other smart people with well-developed instincts. Entrepreneur Kevin Rose created (but no longer runs) Digg, the news site where users vote on

what's interesting online. Along the way, he has built an enviable portfolio of his own investments, including Zynga, Twitter, and Foursquare. He's friends with many companies' founders and says that he and they learn constantly from each other. "It serves me; it serves them," he explains. That reminds me of the best line about the angel-entrepreneur relationship that I've heard, thrown out by an audience member at a conference session on angel investing: "It's like fellatio—two teenagers just fooling around."

"Lots of times, these deals are oversubscribed and you're fighting to get in," says Rose, who readily admits that he's not above groveling. "I definitely was hitting up Jack Dorsey to get into Square," he adds, referring to the Twitter cofounder's new company, which enables merchants to use their iPhones as cash registers. "I pinged him over email, pinged him again. He was kind enough to carve out a little space for me."

After investing, Rose visited Dorsey at Square and found that they had plenty to discuss. "We talked about some of the pitfalls of stuff happening at Digg," he says. "They showed me their new app, and we talked about my business." If Dorsey or Rose ever need anything—for instance, future funding—they can reach out to each other for help. Rose got into his pal Joshua Schachter's newest company even after Schachter, the founder of Delicious, refused to tell him the nature of the business. Rose said he didn't care; he'd still invest. So Schachter reallocated slices to allow Rose and other equally faithful investors to join.

Such incestuousness gets a bad rap, Ravikant says: "Despite whatever we might want, this is still mostly a people business." He mentions two hot companies he wanted to invest in and says he got the nod only because of his past close relationships with the entrepreneurs-Ravikant had tried to recruit one as an executive and had advised the other on business strategy. Because of those relationships, Ravikant's two friends gave him a break on their companies' valuations, so he'd have a bigger potential upside from his



share. He returned the favor, he says, by trusting them. When the closing documents arrived from one of the entrepreneurs, he signed without really reading them.

At least compared to VCs, angels are just as lax about expected rates of return. VC firms have a guaranteed way to make serious money: 2 percent management tariffs that earn a firm \$6 million simply for raising a \$300 million fund, no matter what they do with it. Super angels, on the other hand, make much less on fees, so they have to rely almost entirely on the "carry." That's a percentage, typically 20 to 30 percent, that they take out of profits left over after the fund amount is returned.

One of the rare studies on angels' financial performance, by the Kauffman Foundation, reports that 39 percent of angel investors lost money in the stretch from 1990 to 2007. (Another study, by the University of New Hampshire Center for Venture Research, estimates 25 to 30 percent annual return rates, but it counted only those angels who were profitable.) When I ask Ravikant if he knew that Twitter was a home run when he put down his money, he says, "I did—that's the good thing," before adding, "The bad thing is, I think that about every one of my investments." Angel investing is, he joked in Austin, "probably less lucrative than setting fire to a giant pile of money." Angels refer to "throwing darts" and "Vegas money."

When I press Ravikant, he guesses that three-fifths of today's seed investments in the consumer-tech space will lose money, one-

fifth will break even, and one-fifth will make money. But getting this ordinarily straight shooter to talk about return rates is like trying to grab a wet bar of soap. "It's very secretive," he admits. "You can't reduce this to math. If someone is sitting around doing valuation spreadsheets, that would say to me that they don't get this at all. It's an art, not a science."

"Every year, there are thousands of deals," he continues, "but just 10 that matter. If you aren't in those, you might as well go home." Not that a bunch of \$50 million "exits"—the term for when a company is acquired or goes public, allowing an investor to get his money out—can't move the needle. But the only sure way to succeed is with one of the rare superstar companies. Google reportedly returned its seed funders 700 times what they put in. The cash Ravikant put into Twitter in 2007 is now worth \$5 million to \$20 million.

When I do the math on Ravikant's \$22 million fund, I figure he probably needs exits that bring in at least \$47 million for him to personally make \$5 million. That could happen, but none of his portfolio companies' three significant exits so far—a sale to Twitter for company stock and sales to Google for \$25 million and \$70 million—have carried enormous payouts. Let's say his fund's stakes in those three startups was \$100,000 apiece at a time when each was valued at the fairly common figure of \$5 million, and the shares hadn't been diluted since; the three exits would have returned the fund just \$2 million.

The cherubs

THE ENTREPRENEURS GET YOUNGER AND YOUNGER AND THEIR IDEAS MORE AND MORE INTRIGUING—AS THE PAST YEAR'S MOST TALKED-ABOUT STARTUPS SHOW.

Adiran Aoun

Age: 27. Venture: Wavii Why the scrum: Aoun is rumored to have turned down a \$10 million offer from Yahoo!-and anything Ron Conway wants in on causes a fuss. Big idea: Create social content in real time from news, blogs, and tweets and deliver it through a Facebook-like feed. Lucky angels: SV Angel; Aydin Senkat; Mitch Kapor; Max Levchin. Raised to date: Won't comment, but says that the articles claiming \$2 million aren't far off.

Nate Biecharczyk, Brian Chesky, Joe Gebbia

Age: 27, 28, and 29. Venture: AirBnB. Why the scrum: Came out of Y Combinator with raves from the New York Times, CNN, and the Wall Street Journal. Big idea: Rent anything from a treehouse to a castle from carefully vetted real people in 8,229 cities and counting. Lucky angels: Sequoia Capital; Keith Rabois; Y Combinator. Raised to date: Just got \$7.2 million from Sequoia Capital and Greylock.

Adam D'Angelo, Charlie Cheever

Age: 26 and 29.
Venture: Quora.
Why the scrum: D'Angelo
used to be Facebook's
CTO; Cheever was its
engineering manager.
Big idea: Like Wikipedia,
only with anonymous
questions and answers.
Lucky angels: Benchmark Capital's Matt
Cohler (ex-Facebook).
Raised to date: Thought
to be around \$11 million.

Jack Dorsey

Venture: Square.

Age: 34

Why the scrum: Twitter cofounder, duh. Big idea: Turn an iPhone into a credit-card swiper. Lucky angels: Marissa Mayer (Google); Kevin Rose; Khosla Ventures; Brian Pokorny; Shawn Fanning; Joshua Schachter; Ron Conway; MC Hammer (seriously). Raised to date: \$10 million.

Adam Goldstein, Steve Huffman

Age: 22 and 27.
Venture: HipMunk.
Why the scrum: Huffman's last venture,
Reddit, was snapped
up by Condé Nast.
Big idea: A better and
prettier way to look at

your flight options online. Lucky angels: SV Angel; Khosla Ventures; Paul Buchheit; Matt Mullenweg (WordPress); Sam Altman (Loopt); Y Combinator. Raised to date: About \$1 million.

Jessica Mah

Age: 20. Venture: InDinero. Why the scrum: Girl prodigy founded a web business at age 13 and graduated from high school at 15-now she's the darling of the Y Combinator crowd. Big idea: A financialmanagement site that promises to be Mint for . small businesses. Lucky angels: Dave McClure; Keith Rabois; Christina Brodbeck: Jeremy Stoppelman (Yelp); Jawed Karim (YouTube). Raised to date: \$1.2 million-and the checks are still rolling in.

Rick Marini

Age: 38.
Venture: BranchOut.
Why the scrum:
Previous venture, Tickle,
sold to Monster.com for
\$100 million.
Big idea: LinkedIn meets
Facebook—a way to use
your friends to find jobs.

Lucky angels: Mike Maples; Shawn Fanning; Matt Mulleneg; Naval Ravikant; Josh Elman (ex-Facebook, now Twitter). Raised to date:

Raised to date \$6 million.

Jake Mintz, Dave Lieb, Andy Huibers

Age: 27, 30, and 40.
Venture: Bump.
Why the scrum: Came
out of Y Combinator;
plus, it's fun.
Big idea: Trade contact
information by bumping
phones together.
Lucky angels: Aydin
Senkat; Joshua
Schachter; Sequoia
Capital; Ron Conway.
Raised to date:
\$3.5 million.

Dave Morin, Shawn Fanning

Age: Both 30.
Venture: Path.
Why the scrum: Napster founder Fanning paired with ex-Facebooker and ex-Appler Morin, who made it to number 16 in Fast Company's "100 Most Creative People in Business" in 2009. (See "Soaring Angels," p. 95.)
Big idea: Lists of lists—e.g., "best coffee in SF"—with hotshots sharing their picks.

Lucky angels: A closely held secret. Raised to date: In stealth mode.

Brian Pokorny

Age: 30 Venture: DailyBooth. Why the scrum: Ex-Googler who began investing through SV Angel (he was a partner) has morphed into an entrepreneur Big idea: Twitter with photos. Lucky angels: Y Combinator: Seguoja Capital: SV Angel; Chris Sacca; Aydin Šenkut; Kevin Rose: and, of course, Ashton Kutcher. Raised to date: Less than \$1 million.

Rahul Vohra

Age: 27.

Venture: Rapportive.
Why the scrum: By Y
Combinator Demo Day,
its customer base was
growing 15 percent
a week.
Big idea: Makes regular
old Gmail look and
act like Facebook.
Lucky angels: Paul
Buchheit; Dave McClure;
11 others.
Raised to date: More
than \$1 million.