

May 1, 2006

Fresh Crop of Investors Grows in Silicon Valley

New Wealth From Stock Options Nurtures Generation of Financiers; Start-Up 'Angels' Blossom Again

By PUI-WING TAM
May 1, 2006; Page C1

Aydin Senkut, a onetime senior manager at **Google Inc.**, made tens of millions of dollars exercising his stock options after the search company's 2004 initial public offering. He bought a Lamborghini and two multimillion-dollar homes in the San Francisco Bay Area. He retired.

Now he has found a new place to spend his money: on start-ups.



Aydin Senkut


Since February, Mr. Senkut, 36 years old, has put money into five Silicon Valley technology start-ups and has lined up several similar investments. Becoming suddenly wealthy, "at first I thought I'd have nothing to do with the Internet or high tech again," he says. "But I realized I knew nothing about retail or restaurants. I needed to come back to what I know."

As those in Silicon Valley begin harvesting bigger returns from stock options and an improving tech economy, they aren't just spending their new wealth on Ferraris, mansions and Aspen vacation villas. Instead, some of the newly rich are playing financier.

These private investors have become a new middle class of investor in Silicon Valley and are helping to spur a revival in so-called angel investing. Angel investors often provide the earliest funding for entrepreneurs building new companies. In return for a stake in the budding company, they typically invest anywhere from \$25,000 to \$100,000 of their own cash, feeding a Silicon Valley start-up culture that is perpetually looking for the next big thing. Venture capitalists, by contrast, typically raise millions of dollars from institutional investors and create funds that invest in multiple companies.

Angel investments, which faltered during the tech bust, rose to \$23.1 billion last year from \$15.7 billion in 2002 -- though still below the \$30 billion raised in 2001 -- according to the Center for Venture Research at the University of New Hampshire. The resurgence is partly owing to techies cashing in stock options at a rate not seen since 2000: In fiscal 2004, named executive officers at Silicon Valley's 150 biggest companies cashed in \$1.55 billion of options, up 50% from 2003 and up nearly threefold from 2002, according to compensation-research firm Equilar Inc.

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Many of today's new angels appear to be a different breed. Old-school angel investors tended to be founders or the highest-level executives in tech companies. Andy Bechtolsheim, a famous angel investor in Google, was a co-founder of **Sun Microsystems Inc.**; Ram Shriram, another angel investor in Google, was a top executive at Netscape Communications Corp. and **Amazon.com Inc.**; **Microsoft Corp.** co-founder Paul Allen is another old-school angel.

Now, "as the level of wealth in the Valley has increased, people that have been executives and managers at tech companies are personally investing in a lot of start-ups," says Ed Colligan, chief executive of mobile-device maker **Palm Inc.** in Sunnyvale, Calif. "There's almost a new middle class of investors."

Among them are former managers like Mr. Senkut and Corey Cleek, a onetime senior manager of Internet marketing at **eBay Inc.** He recently left the San Jose, Calif., Internet auctioneer after working there for five years and profiting from his eBay stock options. The 34-year-old began putting money into start-ups in 2004. While he declines to specify how many start-ups he has bankrolled, he says he typically invests \$25,000 to \$100,000 in a company, particularly if the ventures are in Internet media and electronic-commerce.

Mr. Cleek still counts himself as a working stiff. Several months ago, he moved to Nashville, Tenn., to join a digital music start-up as its general manager. Every few weeks, he commutes back to Silicon Valley to check on his angel investments. "I make the time for angel investing because it's a passion," he says.

The re-emergence of angel investing may be a sign of froth in the tech market. During the dot-com boom, many individuals rushed to put money into start-ups just as tech stocks were nearing their zenith. When the bubble burst, many of these investors lost their shirts. "Angel investing is highly dangerous," says Naval Ravikant, a tech entrepreneur who lost money on some angel investments he made earlier this decade. "It's a game of poker" because so few investments typically succeed, he says. In general, angels say half of the start-ups they invest in likely will fail.

Today's angels say they are aware of such risks, but add that they expect one or two good deals to outweigh the bad ones. Gil Penchina, an eBay vice president, says his strategy is to invest in as many start-ups as possible. "I subscribe to the theory that you take as many bets as you can," says Mr. Penchina, 36. "Angels are looking for a return of 25 to 50 times what they put in, so if even one deal pays off, you're in good shape."

The new angel activity is proving to be a boon for entrepreneurs such as Rob Crumpler. The chief executive of BuzzLogic, a 20-month-old start-up in San Francisco, began raising funds for his Internet software company in February. Within eight weeks, he had raised his target of \$750,000, plus an additional \$100,000, all from angel investors. Mr. Crumpler says raising the \$850,000 was "definitely easier" than he had anticipated.

For Mr. Senkut, the former Google middle manager, angel investing wasn't the first place he spent his newfound wealth. The native of Turkey, who previously worked at Silicon Graphics Inc., joined Google in 1999 as its 63rd employee. He worked as a product manager and as a senior manager of strategic-partner development, which involved him in licensing Google's search engine and doing ad-syndication work internationally.

In August 2004, Google's IPO turned Mr. Senkut, who joined the company early enough to get thousands of stock options, into a multimillionaire. While he declined to specify how much he

made, he acknowledges he was able to "capitalize beyond my imagination" and no longer needs to worry about his financial future.

Mr. Senkut took a sabbatical from Google in April 2005, and officially left the company in October. He bought a \$5.7 million home in a town near Google's headquarters in Mountain View, Calif., and bought another \$2.65 million home in San Francisco, according to public property records. He shelled out for a Lamborghini, which car dealers say typically start at \$200,000. He hired a personal trainer at \$60 an hour and vacationed with his parents at a medieval chateau in France. "After six years at Google, I wanted to take time off," Mr. Senkut says. "I wanted to share with my family."

After decorating his new homes, Mr. Senkut considered what else to do with his money, including opening a restaurant or a store. But he concluded he should go back into something he knew: technology. He began meeting with his Silicon Valley contacts late last year, including venture capitalists and old-school angel investors, to learn about start-up investing and to hear about deal opportunities. In February, he put money into an Internet media and social-networking start-up. Since then, he has invested in several other companies, including in BuzzLogic and in Internet-video start-ups.

Georges Harik, 34, an engineer who was one of the first dozen employees at Google, left the search company last November after making millions by exercising stock options. Mr. Harik has since made about six angel investments of about \$20,000 to \$80,000 each, primarily in Internet start-ups. Messrs. Harik and Senkut say they often discuss potential investments together.

For Mr. Harik, angel investing is a hobby. "This is something I plan on doing with 30% of my time," he says. The rest of the time he plans to relax, he says, and also dabble in writing automated theorem programs.

For Mr. Senkut, angel investing is a full-time job, at least for now. Angel investing gives him a broad overview of some of the latest Silicon Valley companies, he says, allowing him to potentially join another start-up down the road. Even if he loses all of the angel cash he has invested, he says he has placed such a small percentage of his net worth into start-ups that ultimately, "my financial future won't change."

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