Interview with Roger Ehrenberg from Information Arbitrage

Adrian Bye: Today, I have the pleasure of talking with David S. Rose. He is considered the number one angel investor in New York City.

David, thanks for joining us.

David S. Rose: My pleasure.

Adrian Bye: Maybe could you tell us just a little bit about who you are and what it is you do?

David S. Rose: Sure.

I regard myself primarily as an entrepreneur and secondarily as an angel investor. My background is what you would expect for an entrepreneur that has nothing whatsoever to do with anything I'm doing.

Adrian Bye: Did you like study History or something?

David S. Rose: No, actually I'm famous for an urban planner. I have a degree on Urban Planning from Yale and then I went into politics. I spent a number of years working for Sen. Daniel Patrick Moynihan who was, at that point, New York Senior Senator, as his Urban Affairs expert and then ended up running his regional office in New York where my boss was…

Adrian Bye: You must know all about Robert Moses then.

David S. Rose: Oh, absolutely.

Adrian Bye: I'm reading the book, *The Power Broker* right now.

David S. Rose: Yes, that's a great book. I know Bob Carroll, my father actually knew Moses and my kids have studied Moses. In our house, Moses is a well-known figure.

Adrian Bye: I'm really curious. Is it positive or negative overall on the guy?

David S. Rose: Well, it's a really tough question. He was a very complex character. He did some extraordinary things and he had affects that were very far-reaching. They weren't always to the good but in general, I think history looking back would say, "This man was a positive influence on the city." He was an important influence and ultimately a positive one although things happened along the way that were, if you had to do it over again, you wouldn't necessarily do.

Adrian Bye: Just what I was listening. Robert Moses is the guy that basically built Manhattan during about the 40s through to the 60s or 70s. He was unelected, basically came from nowhere, and became pretty much the most powerful guy in New York City and potentially the entire state. He just did it all from behind the scenes. It's a fascinating story.

David S. Rose: Absolutely.

Adrian Bye: I'm sorry to change the topic. David, please keep going on.

David S. Rose: No problem.

My background is in planning and then I went into politics working for Sen. Moynihan. I ended up running his regional office in New York. After a couple of years, I was having so much fun in politics. I was conducting congressional investigations and I was sitting on boards representing the senator with the mayor of the city. Here I was, a 21 or 22-year old kid, and I figured I'd be stuck there for life if I didn't get out. Also I figure, I realized that at heart I was an entrepreneur. I wanted to be involved in the private sector. So I regretfully left Moynihan, went back to business school, got a MBA in Finance and then joined my family's business which was real estate development. My father was an entrepreneur and my family was back a number of generations in real estate. So I spent the next 10 years working in real estate development on the East Coast of the US – New York City, Boston, Washington – and along the way, as a hobby, started playing around with computers. I'd actually started playing with computers in 1979 and so I brought that into my work. I created the world's first computerized real estate sales office in 1982 or thereabouts.

Adrian Bye: That must have been running on punch cards or something back then, wouldn't it?

David S. Rose: No, it was actually Apple IIs, believe it or not and it got a full page right up in InfoWorld. It was using state-of-the-art network hard drives and all kinds of cool stuff. Then later on, we were the first company to provide computers and networks with every apartment that we sold in condominiums. We actually had a building account on the source and every apartment came with an Apple II computer or a terminal and an account on the source. We had a building LAN effectively. We had all kinds of really cool early-stage stuff. Then on the side, I started a company with one of my business school professors. It was called The Computer Classroom. It was one of the very first computer training companies. We did corporate training in this brand-new world of spreadsheets, word processors, and so on and so forth. I kept going and I was very active online so I was one of the early system operators of the online forums on CompuServe. Nineteen eight-four came around – I happily introduced the Macintosh. I was the original disc librarian, as we called them then, of the New York night business group.

Adrian Bye: Did you have either an Amiga or a Commodore 64?

David S. Rose: No, I was an Apple guy from early on. I had an Apple II in 1979 and then moved to an Apple III which was pretty cool. I moved to a Lisa. I'd gotten one of the very first Lisas and one of the very first Macs. I was actually one of Microsoft's beta sites for testing Excel before it was released. Later in my career, I switched to PC World for awhile but then ultimately switched back so I'm primarily a Mac guy.

Adrian Bye: You're pretty early because I started in early 1985. I think '85 or '86. So, yes, you're a dinosaur.

David S. Rose: Well, so what happened was here I was at real estate dabbling in computers as a hobby. Then after the Mac came around and I went to the first Macworld Trade Show, all these people that I had known in the online world through CompuServe and the Source, other kinds of places were doing all these little startup companies with these exciting little 10-foot booths. Back then in the early trade shows, you can fit the whole trade show into a teacup. I thought this was really cool so I wanted to get involved. I went back the next year and it was interesting. I realized that all the exhibitors were getting invited to the really cool parties for only exhibitors and that the poor tech Vs like me didn't get to go to the parties. I wanted to go to the good parties so I needed to be an exhibitor.

So the next year, I got a booth at the Macworld Trade Show so I can be an exhibitor. But then of course having a booth, I had to have something to put in the booth so that's how I started my next company. I had to create a company to backfill to put into the booth. I saw in a catalog – one of the remainder catalogs – a digital watch that Seiko had put out which had 2K of RAM and a little serial port. It said, "You could download information from your computer into your watch." It had been a total disaster for Seiko way back when but I figured, hmm, this whole world of Macs, maybe we can do software to tie it to your Mac. So we got the last 10 units that they had in the catalog, got some people together virtually, we created a product called the WristMac and took it to the show. It was a bit of a hit. Somebody in the pressroom was overheard saying, "Hmm, best thing here at that show is that watch but what a cheesy salesman." Since I was doing it, slices-and-dices was my sort of Ron Popeil sales act.

That was a lot of fun. I did that as a hobby and then the next thing I know over a number of years, we went from the WristMac which eventually ended up flying in the space shuttle and became the space shuttle watch, to looking to do a wireless version of that but then realized that the wireless wristwatch pager stuff wasn't very effective. So we ended up moving onto paging software. We became the largest developer of wireless messaging software for all the major paging companies. The next thing you know, the whole spectrum auctions in the US came around with the PCS networks like Nextel, Sprint and so on. We ended up doing all the software for them. By this point, I had moved on from real estate into this tech stuff fulltime. So we were the largest developer of wireless messaging software. Then we began to do backend services. We did the backend web service for Sprint PCS that connected their phones to their web, and the messaging software for Nextel and a lot of other players. We then brought on the wireless press system for the Olympics in Atlanta, finished the entire system and they decided they'd change sponsors. So they decided not to ship it but we got to keep that. We then did online information services.

As the world was moving very rapidly, that pointed us in the direction of doing something with the internet because the internet clearly was going to take over the world from dialup software. So we said, "What happens if you can go on wireless with the wireless messaging we were doing, with the internet?" and we created one of the first wireless data networks for the internet called AirMedia Live! – the AirMedia Live! information network. We had a hardware device that we invented that plugged into your serial port. We did deals with a wide range of sources for content, everybody from CompuServe and AOL to PCQuote, CBSSports Live and so on, and would send out information on a push basis that would come into your computer even though you weren't online. You'd come in wirelessly and it'd fly across your screen.

That got to be a pretty big thing. I had actually got a full column by Walt Mossberg on The Wall Street Journal when in launched. Venture capital began to flow into us. We raised quite a bit in VC. By the time mid-90s came around, the company had about 120 people based both in the West Coast and the East Coast. We were doing versions of this for companies like Compaq, Global Village, NEC, Hewlett-Packard and the like. We were the wireless push technology leaders. I don't know if you remember way back in that time when you had PointCast as the push technology on the wire line and AirMedia was the wireless stuff.

Then the product shipped with a lot of fanfare and nobody bought it which was very depressing. So that was the end of phase one. We basically crashed and burned with a spectacular product that everybody loved but nobody bought, and the question was what to do next.

At that point, we had this extraordinary backend infrastructure. We went to our investors and said, "Hey, we have another idea to leverage our whole infrastructure with this whole internet thing that's happening and let's be a backend for the wireless internet whether you're using SMS, text, XML, voice or whatever it is. We'll be the backend for the wireless internet." So we restarted the company and hit the boom at the right time.

The next thing you know, we had more venture capital and we were expanding into Europe. We acquired a company in the UK. By this point, we had investors including Richard Branson's folks, Symantec and all kinds of other players. We had offices in London, in Paris, in Germany and things were going really interestingly.

The only thing that could possibly have hurt us was if everything simultaneously crashed and burned – the internet, wireless and everything else. Unfortunately, that's exactly what happened so we had some great technology, a great system but the dot-com crash came along.

The next things you know, there I am back in the street again at which point, my longsuffering spouse said, "Enough is enough. No more of this entrepreneurial stuff." So I said, "Okay." I went back and helped my kids in college. I went back to one of my avocations – my hobbies of letterpress printing. I wrote a book on letterpress printing and stayed out of the tech world for – I don't know – six months or so when along came somebody I had known from the glory days, the guy who had actually invented social networking, an entrepreneur named Andrew Weinreich who created the website SixDegrees which was the first social networking site. He had sold that for over $100 million in stock. Along came the crash. He was back out in the street. He had an idea for a new company to do a distributed Wi-Fi hotspot network. He showed me the idea. I liked it. He asked if I'd help advise him which I did. So I invested a few dollars into helping get that started. The next thing you know, we're off to the races again with Joltage which is Andrew's company, which I was on the board and an investor. I was joined in that by Nicholas Negroponte and some other really interesting early-stage investors. But then, that was the middle of the nuclear winter, as we called it in the angel world. So we could not get any VCs to finance anything although we had strategic investors who were willing to invest along with VCs. At that point, that company which was called Joltage eventually quietly closed down.

But now I knew you had to lose money both as an entrepreneur and as an investor. So I said, "Okay. What do I join?" I joined a local, what I realized was an angel group because I realized I was an angel investor, and that was a group of investors who had been pulled together by the New York New Media Association which I had helped to found way back in the early mid-90s. There I found other of these people called "angels" who would invest in early-stage startups and I did some small investments through that group. Then it turned out that the trade association itself closed down because they had, in the middle of this nuclear winter, 8,000 unemployed dot-com types all looking to get jobs from the other 8,000 so that didn't quite work. But we then took the angel group, since I wasn't allowed to start a company according to my spouse, and we did a business plan for the angel group as a knot for profit. We started New York Angels which this is now seven or eight years ago and has become the most active and serious angel group in the New York Area, and started investing on a more or less fulltime basis.

Having then over the years invested in over 75 companies or so, about five years ago I was looking around at the whole angel world. Realizing how difficult it was to administer a group of 75 type A personalities who were these angel investors, and reviewing hundreds and hundreds of funding applications each year – there were no tools. I searched the whole world, found there were no tools at all, and decided ultimately that there was a market hole here and that if one could provide a toolset to help bring angel investors and early-stage entrepreneurs together, there was in this age an exponential technological growth – a lot of good stuff that could come out of that. So I finally got permission from my spouse to start another company and I started a company called Angelsoft.

Today, here I am with a company called Angelsoft which provides the backend infrastructure for virtually every angel investment group in the world – over 500 of them in 45 countries where over 20,000 accredited investors who use the platform to process over 3,000 business plans each month. I'm myself actively investing in a dozen or more companies every year and then physically here in New York, I've set up an incubator and a coworking space. So essentially as a crazy entrepreneur, I end up these days working 16, 17-hour days, seven days a week and having the time of my life.
In a nutshell, that's the story.

Adrian Bye: Interesting. Well, I have a key question, I think, to ask that maybe ties all of this together, if I may?

David S. Rose: Sure.

Adrian Bye: How were the parties?

David S. Rose: The parties turned out to be pretty interesting although there were a lot of geeks running around and there were a few early-stage artistic types who were involved in tech – surprising ones. For example, do you know that Judy Collins, the folksinger was in Apple from early on? I mean she would take apart her Apple II, stick it in cards and work on the OS stuff. Todd Rundgren was a programmer. So there were some folks in that area who got involved but for the most part, you had a lot of geeks. But that was my crowd. The online forums on CompuServe in the Macintosh forms that I was a systems operator for would get together for these events once or twice a year and I became sort of – we called it – the sushi op because we had these sushi banquets. I was like the social butterfly.

Adrian Bye: You know you're giving me all of this elaborate stuff but in the end, you just went for the boot bag.

Come on. Let's get real now.

David S. Rose: Absolutely. So we would have these sushi banquets at each trade show and it was an enormous amount of fun. Actually at one point way back in the dark ages when there was a party and after-party at one of these events, and my hotel room was crowded with all kinds of interesting people, the next thing I know there is this crazy, bearded guy who was working on my hotel room phone, taking it apart and wiring stuff up. I looked and it would turn out to be a guy named John Draper better known as Captain Crunch who was the first of the…

Adrian Bye: Really? You met John Draper?

David S. Rose: Yes. John Draper…

Adrian Bye: Did he have this back issue by the time you met him or no?

David S. Rose: He was a very interesting character. It's good at saying there was all those hotel security in my room. It was a very interesting time. Let's put it that way.

Adrian Bye: Yes. John Draper was Captain Crunch. He was one of the other guys that basically invented blue boxing using a system of three phone calls.

David S. Rose: Yes.

Adrian Bye: Let's not go down that because we do need to talk about business here.
Now I'm interested to know. I mean the stories you told, I'm actually surprised because you're sharp, you're a guy, you're aggressive, you're direct. The sort of stories I usually hear from guys like you is, "I kicked off from (this)…and I did great in (that)… Then we did (this)…really well." But most of the stories you told through the beginning of this call were pretty horrendous. I mean you're telling us like over and over…

David S. Rose: Absolutely.

Adrian Bye: …they're not good, right, it seems like? I mean your wife said, "You couldn't go and start a business," but that sounds like this stuff really affected your marriage. I mean it sounds like a lot of stuff went really wrong and now you've managed to pull it together. Maybe can you like talk a little bit about that?

David S. Rose: Sure. I mean the answer is I now do a lot of talking and teaching about entrepreneurship. I was Mentor of the Year last year at NYU Stern Business School, I'm on the entrepreneurship advisory board at Columbia and at Yale, my alma maters, and I do a lot of teaching about entrepreneurship. The first thing that you let every wannabe entrepreneur know is that this is tough. Being an entrepreneur is one of the toughest careers you can choose because bad stuff will happen absolutely guaranteed. Since you're the one who's running the whole ship, when it happens, it happens to you and it could be very, very, very bad.

I mean when my first company went down, the first AirMedia with lots of venture capital. It had lots of users and 120 people on staff. That had, until that point, the biggest single disappointment of my life – the biggest failure and it was really depressing. I cried myself to sleep. I mean it was really bad.

But then you pick yourself up and you start doing it again. The most important thing is to maintain your integrity, never sell out and do the right thing. If you are doing the right thing for the right reasons and have your integrity… Things go wrong, entrepreneurs will fail and every entrepreneur does fail. But if you're going to be an entrepreneur, you've got to accept the fact that it's going to happen. You don't set out to fail but one failure doesn't mean you pack it up, go home and work on an assembly line. It means you keep going, you learn from your mistakes and you try, try again. So entrepreneurship…

Adrian Bye: It sounds like you've ground through failures for like 15 years. I mean does that sound right?

David S. Rose: It was challenging, absolutely. So the question is, "Why do you do this?" One of the things that I found with 25 years, 30 years that I was an entrepreneur is that entrepreneurs are crazy. The average angel investor has over 10 years experience as an entrepreneur himself or herself when he or she started two or three businesses. So therefore, angel investors typically are distilled craziness. I live these days in a world of crazies on both sides and I'm certainly part of that. You have to have a calling, a vocation from the Latin "vocare" to be called originally to the priesthood but you have to know that this is what you want to do.
I get lots of business school students who come by my office looking for career advice, "Should I be a venture capitalist? Should I be an entrepreneur?" I make the point, "If you're asking that question, you've already made a decision because you already know the answer," because if you're an entrepreneur, you have such a calling, such a drive – you have to do this. No matter how many times you're punched down, you'll get up and you'll try it again because that's what entrepreneurship is about.

Adrian Bye: Right.

What about with your wife? I mean don't tell us if you don't want to but it sounds like it put stress on your relationship. How did you manage that, make her do this and have it that way?

David S. Rose: Yes, people are natural entrepreneurs to different extents and I believe it's a spectrum. Some people – you take a Richard Branson on one end. This guy, you put him on a desert island, he'll be selling coconuts to the seagulls kind of thing – total hippomanic entrepreneur. But the other end, there are people who absolutely no way, never ever have, would touch anything entrepreneurial and don't want to do it. My wonderful spouse is at that end of the spectrum.

In one sense, it's a good marriage because we are on completely different ends of the spectrum and it's very, very supportive. It took a couple of years' break between ventures before we got started again in the entrepreneurial world but she's very supportive of what I do and these days secondhand enjoys the retailing of the experiences over here.

Adrian Bye: I mean when you had your business career like falling apart through various stages, how did you manage to not bring that home?

David S. Rose: Well at some point, people describe me as being naturally happy. I am an optimist without question and I think at some effect, you can't be a pessimistic entrepreneur because so much of entrepreneurship involves having faith in yourself, faith in your vision and the ability to keep going in the face of adversity. So I am naturally extraordinarily optimistic, extraordinarily upbeat, perhaps inappropriately and crazily so. I never lose my temper. I never shout and scream. I never get mad. I accept the fact that that's unusual so I have the ability somewhat to separate but also I try not to let it affect me. If you're down in the dumps all the time, you can't be a good entrepreneur. You have to have faith. So I think it's partly personality and so I did keep the home life somewhat separated from the business life. But that's challenging.

Adrian Bye: Yes. No, no, I bet. Alright.
The thing I hear about you is this angel group. I'm interested that you mentioned that they're all these type As. I don't really know much about angels particularly. Maybe can you tell us a little bit about who are the typical types of angels that you have in your group, what do you guys do, how it works and all that sort of stuff?

David S. Rose: Sure.

Most people think of all kinds of financing in one big pot. So, "Oh, yes, they're banks. There's VC and there's angels." They often use one word without spaces "angelsandVCs" or "VCsandangels" – "It's the same kind of thing."

But if you think about the whole financing world, the timelines are very, very different. I mean banking goes back to probably the Phoenicians a thousand years ago. Stock markets go back to the London Stock Exchange 1788. Venture capital firms – the first venture capital firm was founded after World War II by Gen. George Doriot in the 1950s. The first angel groups were only founded in the late 1980s, early 1990s. So the timelines are quite different.

The essential difference between venture capitalists and angel investors is that venture capitalists or VCs are professional money managers who go out and raise a fund of other people's money, usually institutional from pension funds, insurance companies, university endowments or super-rich people and so on, and then they pick early-stage companies where they can apply that money to get high returns. So they are compensated by getting a piece of the profits they make on other people's money. In contrast, angel investors are individual people who invest their own money out of their own pocket into early-stage companies. Because of that essential difference, there are differences in the size. A typical venture capital fund might be a fund of $100 million these days or $200 million whereas there are no angels or few angels who have anything like that money. So venture capital funds historically have invested in the few million range to a few tens of millions whereas angel investors out of their own pockets typically invest tens of thousands to low hundreds of thousands. That means that angel investors have tended to invest earlier in the cycle when companies are just starting up whereas VCs tend to invest a little later in the cycle when they've have a little more traction.

So you're looking at people who are investing their own money out of their own pocket into companies that they know where they're betting on the entrepreneur and because most angels have some experience of their own in entrepreneurship or early-stage companies, they also try and add value by helping the company through their network, through advice and sometimes even management. Those are the kinds of people who look for early-stage companies in which to invest.

So what happened in the 1990s was you found these individual people invest in individual companies and they'd bump into each other. You'd find two people in the same deal and they'd say, "Hey, why don't we pull our deal club so we can see deals that I might like that you might not like and vice versa, then pull our money so if we're each putting in $50,000, together we can put in $100,000 and then pull or advice then sell them. That was the origin of angel groups. Some of the very first ones like lower or loosely organized, retired executives down in Pennsylvania and band of angels out in California began to get together. When you get 50, 100 or 200 people into a group all sharing their deal flow, their expertise and their money, you begin to get something that has a lot of reach and can do a lot of interesting things because the biggest challenge…

Adrian Bye: I mean how do you end up doing this because one of the things that I guess… A friend of mine who's Dave McClure – I guess you've heard of that in Silicon Valley.

David S. Rose: Yes, I know Dave well.

Adrian Bye: He's doing a lot of different types of investing. One of things that he talks about is where he'll place small bets and he'll increase the bet with companies so they can see who's gaining traction and then he just kind of lets the others, I guess, go to the wayside.

As an angel if you were on the very bleeding edge of the game so you're always in the initial round, you don't have the scale to be able to do lots of follow on investments so therefore it seems like you guys are taking most of the risk and potentially getting diluted out by VCs or other people later on. Honestly, how good are the returns as an angel investor?

David S. Rose: That's a very perceptive question and the answer is it's very tricky to do it right. It's not so much a science. It's partly art, partly science and a lot to do with portfolio diversification because nobody can pick early-stage companies right all the time, even a majority of the time. The statistics are pretty interesting in terms of early-stage stuff which is the majority of all angel investments fail completely. If you do 10 investments, five of them you can expect and you should expect are going to wipe out within the first year or two, crash and burn, and literally lose your entire investment. That's 50% of your money right down the tubes, day one. If you then look at the rest of it, of the next five, two of them maybe a few years later will give you back the money you put in so you don't make anything there and you've lost the value of that money over time. Then two more, you'll have an exit of some kind. They'd be bought by a larger company or whatever and will return two or three times the money you put in which would be pretty good except it's taken five, six years to do that and by the time you put those hit wins against offsetting the losses, you're effectively back to zero. That means that your whole portfolio ends up riding on one company which you hope to be a real homerun. But the thing is if you invested at an early stage in a relatively appropriate or modest valuation on that one company and that company then becomes a $50 million or $100 million company, the returns – 20 or 30 times return – of your money on that one company out of 10 means that in total, your portfolio over time has an IRR in the 20% to 30% range.

If you take a look at the returns from different kinds of funds from private equity funds to venture funds, early-stage seed funds to angel investing, it turns out that the earlier stage at which you invest if you do it correctly with enough diversification and enough holding – over time, the earlier at which you invest, the greater the returns. So a number of studies have shown that the average return from sophisticated investors who have a large portfolio in the earliest stages of angel investing is in the 20% to 30% IRR range which is actually quite good.

Adrian Bye: For guys like Fred Wilson, I mean he sits further up the food chain. Where would his IRR be?

David S. Rose: I don't know exactly what Fred does at Union Square Ventures but Fred is actually not all that much farther north. So Fred is in a very early-stage fund which he does. He said they won't invest in companies with long-term growth financing at $50 million or $100 million valuation. So they would be the next level after us. His returns are likely better than most of the later-stage VCs.

Typically, VCs would love to show a 20% IRR net to their investors after taking up the 20% VAT that the VC himself takes. Typical, VCs would love to show a 20% return to their investors. In actuality however, the sad fact is that the majority of venture capital funds in the US that have been founded in the last 10 years are actually underwater. They've actually lost money.

It's a very risky business for angels, VCs and entrepreneurs but we're all in it going in, understanding the risk.

Adrian Bye: You have obviously a massive competitive advantage now because you have your angel network locally and you've got this angel supplying software that's being used around the world so you have a much bigger reach into the best deals.

David S. Rose: Well, not necessarily because we have no leverage on Angelsoft that anybody else doesn't have. Angelsoft is a tool platform that provides the backend infrastructure for all the world's angel groups. What that does to everybody, we have an area called open deals in which angel groups that are looking to syndicate deals can post a deal, saying, "Hey, we've got part of this deal financed. Who would like to join us in funding this deal?" and entrepreneurs themselves can post into that area so therefore be accessible by all 20,000 investors. To that extent, anybody can use Angelsoft to broaden their reach and deal flow.

Adrian Bye: But you're the man, right? So people are going to come directly to you and say, "Hey, you're the guy. We want you."

David S. Rose: Oh, in terms of deal flow, sure. The more that I have been involved and the longer you stick around the angel world, the more you're known as an angel – the more you blog about it, write about it, speak about it and have exits.

People like Dave McClure, who is an active both VC and angel investor on his own, get deal flow. Those of us who are very active angels get people coming directly to us which we try and encourage, which is great. For the average angel who doesn't have that profile and doesn't do it on such a fulltime basis, that's why they belong to these angel groups which in turn go out, actively try to market themselves and get companies to submit plans to them. So one of the major functions of angel groups is to provide deal flow for angels who themselves don't have a lot of deal flow.

Adrian Bye: Actually, maybe you've seen Jason…

David S. Rose: …Calcanis…

Adrian Bye: …talking about – yes – paid for presentation and stuff like that. I'm interested in your thoughts on that area.

David S. Rose: Well, sure. I've known Jason for 20 years since he started in the whole New York Area over here and his jihad, as it is, is against "angels" or "angel groups" that charge entrepreneurs to be able to pitch. Jason paints with a rather broad brush, shall we say, and doesn't do nuance. The reality is there is some nuance here. There are people. It's a spectrum and it goes from light to dark. On the dark side are events and groups that charge literally $10,000 or $15,000 for a company to have the "opportunity" to present their pitch to a room full of people. I don't think that makes any sense and I agree with him. That really is making money on the backs of entrepreneurs who don't have much of a chance of getting funded. On the other extreme, you have angel groups that are not-for-profit entities that charge very small amounts of money - $50, $100, $200 to companies to help defray their expenses for the meeting, their small staff and so on but where the individual people don't make money on it. It's just an expense thing. The Angel Capital Association of the US has established a total fee limited of $500. They say that any group that belongs to the Angel Capital Association shouldn't charge more than $500 in total to entrepreneurs throughout the whole process and I think that's not an unreasonable amount.

Adrian Bye: Why would there be any kind of regulation? I mean it's a free market. It's a free world. If people want to pay $10,000 to go and speak to someone, I don't have a problem with that.

David S. Rose: No, absolutely. There is no regulation and that's part of the problem. But Jason is a populist and Jason has a blog following. He's gotten a lot of readership out of this. Part of it is that there are a large number of entrepreneurs who are always being generated.

I liken the analogy to "fish swimming in a fast-moving river". They're being spawned upstream and they keep swimming down. Everyday there are new fish swimming down that river and everyday the fishermen, who will be the investors, come to the same bank.

So it's the same thing everyday for the investors but a new thing everyday for the entrepreneurs. So an entrepreneur who hasn't heard of this might look at a fancy web posting or ad for some kind of event that says, "If you pay us $15,000, we will put you in front of all the people who will give you lots of money." So they don't know any better and so they'll pay the money. In reality, they would have almost zero chance of getting funded from that event.

What Jason is trying to do maybe a little heavy-handily but he's trying to warn people against that. In general, he's right and it's an interesting question for the whole field when you get down to the smaller areas. If you are a not-for-profit angel group of individuals who are trying to look at deals and increase your deal flow, is it inappropriate to ask entrepreneurs, who you are going there to listen, to pay $100 to help defray the cost of the meeting, your administrative staff and so on. That's a legit question. Somebody ultimately has to pay something somewhere. So Jason started his own angel group called the Open Angel Forum which he is funding by having service providers pay for it. So lawyers and others do it. One can say, "Alright, fine. Does it make sense? Is it appropriate for investors to anoint a particular service provider because they're paying money to get their group going?" You can look at this several ways but it's right now a very wild and wooly business.

What we're trying to do with Angelsoft with our tool platform is to provide a somewhat standardized way of reducing costs across the whole board, standardizing things and making everything transparent. So Angelsoft is this backend platform for all these groups. You can go on Angelsoft, look up New York Angels and you can see: how much money we've funded into how many deals and over what kind of time; how many people have checked in the last month; what our average time to look at a deal is; what our average time to funding is – full transparency. We think that that's really good because entrepreneurs can now see in the real world, not listening to public sales pitches, exactly what happens.

Adrian Bye: I want to ask about your incubator coworking space. You said you have five floors of stuff going on there.

David S. Rose: Yes. So being involved with New York Angels, most angel groups tend to invest in a particular region, a particular industry and a particular stage of company. In the case of New York Angels, we have really interesting members. We have most of the major technology investors in New York belong to our group, people like Esther Dyson, Alan Patricof and so on. We tend to invest in companies that have started up and have shown some traction. In other words, they've typically been around for a year, maybe a little longer than that. The entrepreneur has put in a little bit of money. They've got a product that's either shipping or ready to ship. They have customers, prospective customers or beta customers. So we invest in these early-stage companies and I wanted to be close to the companies in which I invested. Some of them only have two, three or four people so I opened an incubator here where they could relatively inexpensively get office space and be near me so I can provide advice, and so on. Then the next thing you know, we had other people wanting space, some more space that I wasn't invested in, so we said, "Sure, as long as you're good guys, in the tech space and can add value to the whole thing, you come in, too." Then as the world is getting less and less expensive to start companies, and you can now start a cloud-based company really cheaply with one person and a cat, you can do it in Starbucks but I said, "Okay, there's a trend of coworking spaces, of open areas where you could, for relatively low amounts of money, pick up a desk and spend time there. You have 24-hour access with internet, phones and everything else."

Adrian Bye: Does that include the cats as well?

David S. Rose: No, it doesn't include the cats but one company has a hamster and we have a couple of dogs so we're sort of pet-friendly.

We have probably 15 or so companies on a couple of floors here ranging from one person to, I think, seven is the biggest, that are in varying stages of startup from people with an idea who are working to get themselves to the point where they are ready to approach angels for funding, all the way up to some venture back companies that have relatively small teams and find the space conducive. New York Angels also has its offices here as does Astia which is the international nonprofit that helps women entrepreneurial businesses. They're here. Angelsoft is headquartered here. Rose Tech Ventures is…

Adrian Bye: You have five floors. I mean how many people are there working away?

David S. Rose: We have in total probably 50 to 100. I'll call maybe 75 across the whole operation.

Adrian Bye: Do you have 75 guys that are sitting, churning out ideas for businesses they're trying to start?

David S. Rose: Well, but different kinds. Twenty or some amount of them are on Angelsoft which is our company here doing the spec-end platform. One floor is taken over by a startup that started small. An angel investor came in for angel investor space then had a startup. The startup got bigger then they got venture-funded so they're a full floor. Then we have, as I said, a couple of floors of incubator and coworking space with it ranging from open areas to small offices with one, two, three-person shops.

We're sitting right in the middle of the flatiron district which is known as the Silicon Alley here in Manhattan and right across the street from a snack bar in Madison Square Park called the Shake Shack which is a Danny Meyer restaurant. Danny Meyer is one of the world's great restaurateurs and he has this super-duper gourmet hamburger stand which has become the center off all of the New York technology community. The lines are typically and hour-long line to get a hamburger and we are right on top of that. We're a very interesting central nexus point for the technology community here in New York.

Adrian Bye: I didn't know. It's really interesting.
Let's say someone wants to get started in your coworking space. How does that work?

David S. Rose: They apply. They say, "Hey, here's my business and I'd like to get a desk, or two or three." We're very open and provided that they are in the tech startup arena which we think contributes to the whole feeling of the place, we welcome them to come in and it's no long-term commitment. It's month-to-month. We have a no bozo policy so we don't look for jerks. We're not looking for real estate salespeople or people who are making a lot of noise in the coworking space. It's actually pretty quiet here – people working on computers in one, two, three-person teams all in the technology arena.

We have various events. Every Friday, we have what's called Free Lunch Friday where we bring in a guest speaker, either somebody in marketing, somebody in technology, venture capitalists or whatever, or me and do a presentation to everybody. We provide pizza, sushi or whatever. We have other kinds of events. For example last week, the First Round Capital team that's one of the leading VCs and early-stage VCs came around on a walkthrough, and their whole team spent a couple of hours here meeting with our various entrepreneurs to hear about their businesses. We've hosted a number of the New York Meetups here, Ultra Light Startups and other areas. So it's a pretty vibrant environment.

Adrian Bye: How much does it cost for one day and one person who's going to get started?

David S. Rose: Our starting rate right now is about $500 per desk per month, it goes up to a few thousand dollars if you want a private office for several people and so on. It's really cost-effective. You could go to Starbucks cheaper but they don't provide quite the environment here.

The goal here is not to run as a profit center which we don't but rather to run it to break even, and provide additional deal flow for us in keeping our fingers on what's going on in the community, let people know that we're here, we exist and basically do good.

Adrian Bye: Because I went and actually checked out a couple of weeks ago a couple of sites for coworking in New York and one of the things that did surprise me was that they were small. How big is the space?

David S. Rose: We have 2,500 sq^2 floors so we have a total of five floors – one floor for the coworking space, one floor for the incubator, one floor for shared resources which includes a boardroom and a video studio…

Adrian Bye: Why isn't it like the space you actually end up working in? My office here where I live in Santo Domingo is massive. I live like a king and I was like looking at some of these working spaces these guys have in Manhattan. It's like, my gosh, I could fit like five of those into my office space.

David S. Rose: Right. It depends. The coworking floor is a totally open floor. There's one conference room and the rest of the floor is open. So you sit at a desk, a nice-sized desk in a 2,500 sq^2 open floor. In the demised offices, they're relatively small offices – two-person offices, three-person offices. This is New York so you're not going to have one person with 10,000

sq^2 of space. Again depending on what you're looking for – open space, private office or whatever – it may or may not work for you.

Adrian Bye: Right. Does that send a lot of deals back to the angel investing site?

David S. Rose: Some. Again, New York Angels gets probably 20 to 30 applications each month for funding. We only have, what, 15 or so companies in the building here so we just wouldn't provide that much of a percentage of the deal flow to New York Angels or to me. But again, it helps the community, it raises our profile and people come in and visit. We certainly see a lot of companies here so I'm very pleased with the way it's worked out.

Adrian Bye: As part of what you've done, you've also had one or two entrepreneurs in residences.

David S. Rose: Right. The EIR, Entrepreneur-in-Residence is designed to help the entrepreneurs in the building as well as help manage it.

Our first Entrepreneur-in-Residence was Nate Westheimer who had been a young entrepreneur, started up a company, did a good job at it, didn't work out. So when he announced that he was closing that down, I invited him to come on and be our fulltime EIR for the incubator, the coworking space. He did a wonderful job and really helped the community – helped the entrepreneurs who were here as well as helping the larger community. Then he was eventually elected as the organizer of the NY Tech Meetup, taking over from Scott Heiferman who had founded it. Nate now runs NY Tech Meetup and also then took a fulltime job as VP of product development at AnyClip so he's really involved.

He was then succeeded by Ryan Janssen who was the Chief Operating Officer of Angelsoft, our company here, who after five years of helping build Angelsoft, decided to go out and start his own company. Ryan has spent half a year here as our EIR during which he created a company called Set Jam which is doing some really cool stuff in the online video space.

Now our latest entrepreneur – we actually changed. We no longer have an Entrepreneur-in-Residence. We now have a breakthrough thing which we're trying. We have an EIT, an Entrepreneur-in-Training – a young guy named Bo Bell who had happened to cross my path looking for suggestions as to what to do in the tech space. He was finishing his PhD and after talking to him for 10 minutes, I said, "Wait a minute! This guy is an entrepreneur and doesn't know it. He'd never considered being an entrepreneur but he has all the entrepreneurial spark, passion, self-sufficiency and so on," sort of like Henry Higgins and Lisa Doolittle. I said, "Why don't you come in and let's see if we can help you be a real entrepreneur." So Bo has just started and is an Entrepreneur-in-Training. We're going to let all the entrepreneurs in the building help mentor him and he's going to blog about it. Hopefully, he can teach by learning. As he works up, gets a company started and learns the ropes of being a sophisticated entrepreneur, other people can learn alongside him by reading his blog and helping him, providing advice. So we'll see how that works out.

Adrian Bye: Very interesting.

I want to ask one last quick question about just New York in general and the New York community.

David S. Rose: Yes.

Adrian Bye: As you've mentioned in New York, the tech scene is really taking off. I think you were telling me a little bit before the call that the tech scene is really starting to get a lot of traction. One of the reasons for that obviously or maybe even the reason is because of Wall Street going down and my understanding of it is that Wall Street with their high salaries basically sucked all of the oxygen out of the room because anyone that was going to do something got recruited. Anyone who had some talent got recruited by a hedge fund or whatever and it's a bit hard to compete with some of these $500,000-a-year salaries when you might make $70,000 or $80,000 starting in tech. I don't know if my numbers are quite right but maybe they're general orders of magnitude. Wall Street is on a little bit of a downturn but I would be fairly confident that it's going to come back at some point and I'm interested in what your thoughts would be on what would happen to the tech community if that does come back.

David S. Rose: Well, that's actually a very interesting analysis and your numbers are actually relatively close. We actually lost a couple of people from Angelsoft here who were offered salaries of $300,000 at JP Morgan which we can't possibly compete with. I said, "Take it! Go! You have to go. You owe it to your family to take that kind of a salary increase." So there is less competition now on the one hand for those kind of quoters.

On the other hand, I think this change is much bigger than that. I don't think it's just the downturn that freed up competition for programming talent. It think it's New York developing the ecosystem that Silicon Valley had in California around companies that had been here from the mid-90s, got big and some were successful, some weren't, but the people had experience in the entrepreneurial world, startup ventures and technology. Now increasingly in New York, you see advertising technology, things that are tying in financial services, other areas so you have a very vibrant community here. People are coming into New York to be with this hi-tech community of startups. You have the NY Tech Meetup which has over 12,000 members. I mean the Israeli entrepreneur meetup in New York has over 1,000 members, just Israeli tech entrepreneurs in New York City. That's pretty amazing.

Adrian Bye: That's insane.

David S. Rose: I think we now have the critical mass and the growth rate of early-stage tech startups and venture-funded tech startups. It's faster and higher in New York now than in anywhere else in the country including Silicon Valley. You're seeing all kinds of venture funds open offices here. First Round Capital just opened an office here. Polaris just opened a Dogpatch which is their incubator here. Flybridge from Boston is coming down and has consultants here. You have all kinds of stuff happening and it's happening not because, I think, of the less competition for high-paying jobs in tech world but because of the growth of the indigenous tech community here in New York.

Adrian Bye: You don't think once Wall Street comes back and then there're $300,000-a-year salaries again – is that not going to define…

David S. Rose: No, I don't think so. I think quite the opposite. I think when Wall Street comes back, you'll see more in the way of financial services and you'll see people coming in for those kinds of jobs. But I think there will always be people who want to participate in the entrepreneurial startup world with its promise of potentially large paydays, exciting work and challenging kinds of things. I think those will continue. It used to be that that was a very small part of the New York community. At the height of the boom, you had 8,000 members. You now have 12,000 in an area now where you don't have a boom going on. You've got 12,000 members in NY Tech Meetup. You have all kinds of companies that are getting funded and VCs funding here.

I think we've now reached the state of hardiness, as it were, that will only be a great base to grow for the future.

Adrian Bye: Very good.

Anything you want to tell us in closing? Anything we can publish?

David S. Rose: No, it's my pleasure.

I mean New York is a great place to locate a startup these days. There is a vibrant community here. Angel investors are a wonderful source of financing and what we're seeing increasingly now is more understanding of the hi-tech startup world from potential angel investors. More and more angels are growing. The growth of angel investors is really significant around the country. Angel groups have helped to get that going so now somebody can join a group and learn about how to be an angel. By the same token, things like Angelsoft have helped to standardize angel investing around the world, Angel Capital Association and courses on how to raise funds. As usual, we're seeing a lot more transparency growth in the individual financing of early-stage businesses. This is, I think, a great time to be both an entrepreneur and an angel investor so which ever way you go, we're in for some very exciting times.

Adrian Bye: Very cool.

David, thanks for your time.

David S. Rose: My pleasure.