

## Venture Capital Journal

1 February, 2008

### Velocity races toward third fund

Seed stage investor targets opportunities in emerging market around California's capital

The Golden State capital city of Sacramento, Calif., may not get a lot of attention in venture circles, but **Velocity Venture Capital** is betting that with a fast growing population and two research universities, the area's startup scene is poised to take off.

Velocity has backed 11 companies from its inaugural 2005 fund, which was a modest \$2 million. The firm followed up with a \$15 million fund a year ago and now says it is preparing to raise a third fund with a target fund size of \$60 million later this year.

"It used to be if you were an entrepreneur here you'd typically move two hours away to Silicon Valley when you were ready to build up your company," says General Partner **Jack Crawford Jr.** "What's changed is Sacramento has reached critical mass as its own ecosystem."

Last year, just 14 companies in the region raised venture funding, bringing in \$80 million, according to **Thomson Financial** (publisher of *VCJ*). As in years past, the lion's share of funding came from firms based about 100 miles southwest in Silicon Valley.

If Velocity has its way, however, 2008 will shape up much differently. Crawford points out that Velocity is not the only fund based in the Sacramento region. Other regional venture investors include **American River Ventures**, **CVV Partners**, **Diamondhead Ventures** and **Wavepoint Ventures**, an early stage investor that also has an office in Silicon Valley.

Crawford says that one reason Sacramento is ready for venture growth is the rise of cleantech companies in the area. Velocity has invested in **Jadoo Power**, a maker of portable fuel cells, and **Marquiss Wind Power**, which is developing wind turbine technology for commercial and industrial uses.

Velocity typically makes seed and early stage investments of between \$100,000 and \$3.5 million.

Crawford acknowledges that the Sacramento region's share of the venture investment pie is disproportionately small in comparison to others of similar size. With a population of about 2.1 million, the metro area is only slightly smaller than Denver and somewhat larger than Austin, both of which rake in considerably more venture dollars, Crawford notes.

But high population density alone does not ensure suitability for venture investment. Local investors are optimistic that the Sacramento region's other features will provide the other ingredients for an entrepreneurial hub, such as the **University of California at Davis** and **California State University at Sacramento**, a base of prominent tech employers that includes **Intel Corp.**, **Hewlett-Packard** and defense contractor **Aerojet**, and proximity to state government powerbrokers.

If that's not enough, there's always another carrot to attract Silicon Valley investors. With Sacramento portfolio companies, they don't have to book a flight to get to a board meeting.

Says Velocity General Partner Jacob Jorgensen: "The old view of the Greater Sacramento area as a government town is gone."—*Joanna Glasner*