Good morning. My name is Richard Golob. I am pleased to return to Kazakhstan for this conference. It has been ten years since my last visit, and it is much too long to be away from this outstanding country.

As you may expect from my Russian name, although my hometown is Boston, I trace my roots to Russia and Belarus. My grandfather Michael Golob emigrated from Minsk to New York City more than one hundred years ago, and now I find myself returning to my roots as I am president and chief executive officer of GGA Software Services, an offshore outsourcing company with its primary development facility in St. Petersburg, Russia.

My background is a nice match for this session. I have raised tens of millions of U.S. dollars for innovative companies in the United States as an operating officer or board member, I have served as an adviser and limited partner in one of America's most successful venture capital firms, I have invested in several startup companies as an angel investor, I have worked as a consultant for the state of Massachusetts assisting early-stage companies to commercialize their technologies, and I am currently building an outsourcing company that I consider innovative as it focuses on scientific informatics.

So my perspective is wide ranging. I have been involved in giving funds as well as in pursuing and receiving funds. This morning, I will offer some thoughts about fundraising, ranging from the impact of the financial crisis to the need for government and university support services to the concerns of the entrepreneur in securing investors.

As the first speaker in this session, I have the envious position that I will not repeat anything that has been said by other speakers. But I have only 15 minutes, and so I assure you that the other speakers will have much to say that will not overlap with my brief comments.

I want to tell you one of the few pieces of business advice that my father gave me. He was a medical doctor, but he gave me a very useful business insight: "Rich or poor, money is good to have." And so it is with an innovative company. For the entrepreneur, perhaps the single most critical task on the path to success is securing sufficient funding to implement the company's business plan. And yes, money is good to have.

In fact, the entrepreneur has two major goals: 1) to develop the company's innovative technology into a viable product or service, and 2) to raise sufficient money to support the implementation of the company's business plan. The money-raising activity becomes the entrepreneur's obsession.

But, before we talk about raising money, let's talk about innovation, because there's no point in investing money in any company unless the company has an innovative technology, impressive business plan, and excellent management team. This combination is a rare species in this region, and in any region, and yet this combination is critical for the success of any new venture.

In order to generate companies worthy of investment, we need to create an innovation environment that fosters the entrepreneurial spirit and that provides financial, technical, legal, and business support for entrepreneurs. The CIS region does not have a deep history in generating innovative companies, and so entrepreneurs have limited access

to mentors who have succeeded in establishing successful companies themselves and who are willing to share their expertise and experience with others.

I know that we have many representatives from government agencies and universities here at the conference, and you have the responsibility for creating the infrastructure to foster innovation and entrepreneurship.

Entrepreneurs need university courses to assist them in understanding how to write a business plan, how to prepare financial projections, how to establish a marketing program, and how to raise money. University professors can often provide this input, but entrepreneurs respond best to other entrepreneurs – people who have succeeded in taking an innovative idea and creating a successful company around it. These business people can also serve as mentors for the entrepreneurs, advising them on an ongoing basis and providing input based on their experience in the field.

At the same time, innovation support centers can offer entrepreneurs the resources to help develop their ideas into companies. These centers can help to create a nucleus of entrepreneurship within the region. They can offer the courses, provide the mentors, and organize events that feature visiting business people, investors, and innovation experts.

The centers can also offer innovation awards each year for the best business plans to be presented at an annual competition. These competitions can serve as an excellent incentive for entrepreneurs to work hard to perfect their business plans. They also can generate positive publicity for new companies within the investment and technology

communities. In the end, they can provide the winning entrepreneurs with a significant cash prize to support their startup companies.

These types of efforts are so very important because, unless you have companies with innovative technologies, impressive business plans, and excellent management teams, there is no reason to invest money. These companies will not be able to make a persuasive case that they deserve your money – that they can generate a return on your investment. It makes excellent sense for universities and government agencies to invest in these types of infrastructure measures first.

Since August 2008, the financial crisis has changed the playing field for innovative companies. The number of funding sources and the amount of funding available have decreased radically. Entrepreneurs can no longer always look to friends and family for money. Angels have pulled back on their commitments to early-stage funding, and venture capital funds have reduced their investing dramatically and are encountering serious problems in raising new funds. And without access to funds, entrepreneurs will not be able to implement their business plans.

Furthermore, the markets for the innovative products and services of many companies have disappeared or decreased significantly, making it almost impossible for companies to fulfill their business plan objectives and to convince investors that they have a viable product offering. Times are tough for innovation. Customers are willing to continue using what they have been using and are willing to wait and wait before implementing anything new and innovative. There is always a cost in making a change.

With the global stock markets in a collapse, entrepreneurs and investors must rethink their exit strategies. The likelihood of a successful initial public offering is nonexistent. The only viable exit strategy is an acquisition or merger. As a result, entrepreneurs must change their objectives for funding. Now they are seeking sufficient funding to bring their company and its innovative technology to a point that another company will want to purchase it. They are no longer seeking funding to get to an initial public offering. The funding requirements for this acquisition/merger exit strategy are much lower, which is reasonable in this tough period.

In addition, this financial environment and the accompanying uncertainty make it less likely that early-stage companies as a class of companies will attract funding. Instead, many investors will move farther down the company lifecycle to later-stage companies that have already developed and proven their technologies and that are ready to be sold to another company. This situation creates a serious problem for innovation, because without funding, innovative companies will never have an opportunity to succeed.

The one funding source that seems to know no bounds in some countries at this time is the government. Many governments are providing major stimulus programs to maintain certain existing industries and jumpstart new and innovative industries. These programs are designed primarily to create jobs, but early-stage companies do not generate large numbers of jobs initially. They are a critical investment in the country's future, however.

My main concern is that government agencies do not have a track record as investors or entrepreneurs, and unless government agencies somehow attract experienced

business and investment professionals into their ranks, these programs will not benefit innovation. Yet, these programs represent a huge funding opportunity for early-stage companies if some of the stimulus funding can be directed to cutting-edge technology areas, such as renewable energy, nanotechnology, and healthcare.

Most investors focus on technology companies to the exclusion of service companies. Technology companies have always received a much higher valuation than service companies. One primary reason: a service company's assets depart each day when its employees go home, while a technology company has intellectual property in the form of patents, which remain in place for many years and which can be leveraged effectively.

Yet, in this economy, I believe that service companies can represent an interesting opportunity, and they usually involve significant job creation from the start. For example, let's look at an offshore outsourcing company similar to my company GGA Software Services. By undertaking the work in Russia, Kazakhstan, or elsewhere, an outsourcing company offers clients in Europe and the United States a way to lower their costs and still receive high-quality work on time. It is a company specially designed for these times, and in fact, I expect that, in 2009, my company will have its best year ever.

Now let me return to the entrepreneur and his plans for global domination. He understands that he must raise money, and yet he wants to hold onto his baby as much as possible and as long as possible. Yes, he does not want to give up control, and he wants to avoid intrusions from outside forces.

Yes, the entrepreneur wants to make money, but usually his efforts are not initially motivated by money. He has a passion for what he and his team have undertaken, and he wants to succeed in creating innovation, changing the world, and generating value.

Now he must shift his focus from developing his company's innovative technology to preparing his financial projections so that he can understand his company's cash flow needs over the short-term period and then beyond. This territory is usually unfamiliar for the entrepreneur, but he has been building a management team with the needed skills for operating and running his company. In addition, mentors and government and university centers can provide an important way to help entrepreneurs along the path.

Initially, the entrepreneur will turn to his own resources, such as personal savings, credit cards, and consulting fees, to bootstrap his company. Then he will look to friends and family to help provide the needed funding. Friends and family are investing primarily because of their special relationship with the entrepreneur, not because of their understanding and enthusiasm for the entrepreneur's technology and business concept.

The entrepreneur must hope that, by the time that he requires more funds than he can generate from personal resources and friends and family, he will have created a proof of concept or something sufficiently tangible so that he can convert an investor into a believer.

The next tier of funding consists of the individual angel investors, the angel group, and the venture capital firms. We have representatives from the angel community and also the venture capital community in this session, and so I will not spend much time describing these funding sources. Almost all investors have a certain specialization,

such as industry, investment size, geographic region, and company stage, and the entrepreneur needs to find an investor that fits the entrepreneur's profile.

At this point, the entrepreneur is making decisions that will affect his company for the rest of its life. He must create a legal structure for his company, whether as a corporation, limited liability company, or some other entity, and he must take steps to protect his company's intellectual property. Usually the entrepreneur knows little if anything about these legal issues, and yet these issues will have a permanent impact on his company. Here is another area for support from government agencies and universities.

Furthermore, when the entrepreneur accepts money from angels or venture capitalists, he is bringing the first outsiders into the inner sanctum. These investors will sit on his board, and they will have real power in determining the company's future.

The decision to take money from this investor rather than that investor is critical, because mistakes in investor selection can have a devastating effect on the company's future. Based on my experience, I believe that such mistakes are one of the most common reasons for a company's failure. Just as the investor does due diligence on the entrepreneur and his company, the entrepreneur must do his own due diligence on the investor.

When entrepreneurs begin to look for money, they usually seek out smart money – that is, money from investors who can provide added value beyond the cash itself. They want investors who know their industry, who have succeeded as entrepreneurs previously, who have connections to other funding sources, and who know the senior

management of companies that might want to make an acquisition. In addition, they want investors who are interested in creating value and a real business. Once again, the selection of an investor is perhaps the single most important decision that an entrepreneur will make.

When I participated in the venture capital industry, I worked with a group of venture capitalists who respected their entrepreneurs and tried to give them sufficient motivation through stock and options to want to keep working on the weekends and into the night. These venture capitalists were not interested in gaining control for control's sake. They wanted the entrepreneurs, along with the management team, to create value, because they understood that, in this way, their investments would generate excellent returns.

Most entrepreneurs would regard this type of venture capitalist as the exception to the rule. As a group, angel investors have a kinder, gentler reputation. However, angel investors usually do not have the financial resources that venture capitalists have at their disposal. And so, as my colleagues will point out this morning, each type of investor has its own characteristics.

An entrepreneur must think very, very carefully about which investor to select. However, in the end, and especially during this financial crisis, let me repeat my father's advice: "Rich or poor, money is good to have." Thank you.