



Christina Marz

Verizon's Samuel A. Delgado, center, advised entrepreneurs Claude R. Pelzer, left, and William A. Watson to switch their business plan from IT, which he says is flattening, to providing hardware, like copper wires. That helped power IBS CompreCore's growth.

## In slowdown, portfolio sales require a new exit strategy

Edison Ventures defies odds as investors struggle to find buyers

BY MARTIN C. DAKS

IT'S TAKING LONGER for many venture capital providers and other investors to sell their portfolio companies, according to some experts.

But despite the slowdown, a Lawrenceville-based venture capital firm has managed to sell off a string of companies this year.

"When the economy rolled over, VCs pulled in their horns and concentrated on keeping existing deals alive," said **Robert D. Frawley**, a Morristown lawyer who's also chairman of the New Jersey Entrepreneurial Network. "From what I've heard, it is taking longer to find a buyer, primarily because the market for initial public offerings isn't what it used to be. As a result, some investors are trying to sell their companies to strategic buyers or to private equity firms."

Investors are growing more conservative, and public markets are looking for stable, long-term growth with good earnings, according to **Mel Baiada**, a principal and founder of the Moorsetown-based venture firm **BaseCamp Ventures**.

"It takes a long time for companies to get to that point, so many VC-backed firms are being acquired, instead of going IPO," he said. "Potential buyers want to see that a company has worked out most of its risks, has a good business model and can grow with additional capital or a leveraged distribution system."

All this means exits are taking up to 20 percent longer than they used to, Baiada said, noting he's held on to one company since 2002.

The general slowdown has helped drive some venture capitalists to prune their holdings, Baiada added.

"In some cases, a VC will simply stop funding a nonperforming company, and allocate his or her capital to performing ones," he said. "The underperformers may fade away, or may be acquired in an asset sale, or be acquired for their technology or their customers."

But Lawrenceville-based **Edison Ventures** seems to be beating the odds, with nine exits in 2011, including one IPO. Still, managing partner **Chris Sugden** said he's also felt the pinch of the economy's slowdown — he just doesn't let it get him down.

"I think we're probably in for another year or so of a slow economy," he said. "But you can't let that be your only focus. Instead, we look at the way the businesses

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## Wired for sound growth

On a tip from Verizon, Ewing firm switches from IT to shipping wire

BY BETH FITZGERALD

AFTER SOME COACHING from **Verizon**, two entrepreneurs who thought they were launching an IT company made a mid-course correction to their business plan, and began supplying hardware to the telecom industry instead.

Six years later, **IBS CompreCore**, in Ewing, has annual sales of more than \$8 million, and counts Verizon as a customer.

**William A. Watson** and **Claude R. Pelzer** date the genesis of their company to a November 2004 meeting with **Samuel A. Delgado**, vice president for external affairs at Verizon.

Watson, president and chief operating officer, and Pelzer, managing member and CEO, hoped to start an IT company, but Delgado, who was Verizon's director of supplier diversity at the time, suggested a change of plans.

Pelzer had worked on Wall Street, started his own software company and

then sold it. Watson has been chief of staff to former Trenton Mayor **Douglas Palmer**, then executive director of a public policy institute at Thomas Edison State College named in honor of his late father, **John S. Watson**, a former assemblyman.

"They came to pitch me with the idea of providing IT services to Verizon, and I basically turned them down, because I knew we were flattening out our IT vendors," Delgado said. Verizon had decided to reduce expenses by shrinking the number of IT vendors it did business with. "So I coached them and said, 'Why don't you find out where our spending is going to be in the next few years, and plug into our supply chain?'"

Verizon was building Fios, its fiber-optic network, "while also spending a great deal of money to maintain their existing system — it was a great opportunity," Watson said.

It took about a year for IBS to build the

kind of company, with the expertise and internal operations capacity, to qualify as a Verizon supplier. "We looked at other businesses supplying materials to Verizon to see what made them work," Pelzer said. "One thing we realized was that the margins in this business are very small, so you need a very tight operating environment."

Pelzer's IT background enabled him to line up technology services on a budget, using cloud computing where possible, "so instead of having a whole IT staff with servers and T1 lines, the software is Web-based" on a pay-as-you-go basis.

For most companies, "technology expenses are normally about 15 percent of operating expenses — but ours are less than 2 percent," he said.

Last year, IBS provided Verizon with 50 million feet of aerial service wire, the copper wire that connects the company's telecommunications lines to customer homes, Watson said; IBS also supplies fiber-optic cable to Verizon.

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## Putting thermal energy on level ground with solar, wind

But the concept faces uphill road past business, environmentalists

BY ANDREW KITCHENMAN

A LEADING LEGISLATOR on energy issues is looking to expand the concept of energy credits beyond solar and wind power, but whether thermal energy gets the same standing as its more celebrated contemporaries remains to be seen.

Assemblyman **Upendra J. Chivukula** (D-Somerset) is writing a bill that would create alternative thermal energy credits,

which would pay for energy from solar thermal, geothermal and biomass generators, as well as the heat produced by combined heat and power, or CHP, generators.

The program would be funded by payments from large-scale energy producers, with roughly 5 percent of state energy use being carved out for the program, similar to carve-outs for solar and wind power.

"A concept like this would try and

bring some equity," said **Joe Sullivan**, vice president of energy policy and development at **Concord Engineering** and a Board of Public Utilities veteran.

Yet Sullivan said he's doubtful thermal will get a dedicated slice of the state energy pie, with BPU President **Lee Solomon** opposed to "picking winners and losers."

Chivukula said the federal government already provides energy efficiency tax credits for companies that generate energy from

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thermal or biomass sources, but New Jersey is missing an opportunity because “we don’t recognize any energy that is thermal,” though the BPU does provide rebates for some biomass and thermal projects.

Chivukula said manufacturers and other companies that generate heat in their production processes can reduce their energy consumption using thermal energy. For instance, scrap metal companies can use the heat from melting metal to generate steam and electricity, and hot water heaters can be warmed by solar thermal.

Sullivan said the concept addresses an inherent problem in renewable energy incentives — namely, how to encourage projects that reduce consumption, but don’t produce electricity. It also could be a fruitful way to recover energy that is generated, but never put to use — “a tremendous opportunity, at the state level and nationally.”

The proposal takes a different approach to an idea already being explored by the BPU: creating a market for energy efficiency that would count toward state renewable energy goals.

“The BPU has supported thermal energy, and we incentivize some types of thermal energy,” BPU spokesman **Greg Reinert**

said, adding that the board supports having an energy-efficiency portfolio standard.

But the Chivukula plan could raise eyebrows among environmentalists, said **Frank A. Felder**, director of Rutgers University’s Center for Energy, Economic & Environmental Policy, especially if CHP — which includes natural gas power — is included. If so, “the New Jersey renewable portfolio standard is no longer renewable, or purely renewable,” Felder said, referring to the 2020 goal.

Chivukula said while CHP may not be in the same category of renewable energy as solar power, New Jersey can create a new alternative power class to meet its goals.

There are other challenges, too. One would be getting the business community on board, since the potential for higher energy costs exists, due to the credits, Sullivan said: “Anything that increases costs is perceived by the business community as negative.”

Another challenge to implementing such a system, Reinert said, would be converting thermal energy into a measurement comparable to electric power. Felder said the state needs to first assess its technical potential for thermal energy before committing to benchmarks.

Chivukula plans to introduce the bill as soon as September.

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Last year, IBS provided Verizon with 50 million feet of aerial service wire, and the company has added three other customers to its client base. Here, employee Harry Ares operates a forklift at the IBS CompreCore warehouse, in Ewing.

## TELECOM

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IBS is a reseller of telecom wiring. “We are taking the material (Verizon) needs, configuring it in a manner they can use in the field, then packaging and shipping it. We buy full pallets (of wire), then break them down into the orders we get from Verizon, so they can ship it right out to the field,” Watson said.

After the November 2004 meeting with Delgado, Watson and Pelzer had their work cut out for them.

“When we met with Sam, there wasn’t any guarantee that we would get a contract,” Watson said.

“But what he did was provide us information on what a company needed to have in place to do business with Verizon. Claude and I did a lot of research, and determined that it was something we could do. So we spent a year getting a warehouse and putting systems in place, and then we went back to Sam and said, ‘We are here, we’ve taken your advice, and we’re ready to do business with you,’ and lo and be-

hold, we got our first contract in 2006.”

IBS has since picked up three other customers besides Verizon. Delgado said Verizon doesn’t want to be the sole customer of any supplier: it puts the supplier at too great a risk.

Delgado said Verizon “wants to do business with diverse vendors; it’s in our culture,” so the company coaches small- and minority-owned vendors on how to meet the company’s standards. “Verizon is a tough customer to deal with,” he said. “Our margins are tight. It’s a competitive marketplace out there; we have to keep the margins low and the quality and the service high.”

Watson said Verizon’s standards are exacting, but “the Verizon culture is very open and very strong toward diversity.” He had met with other companies that didn’t have Verizon’s commitment to supplier development, who gave him “nice happy talk, but not any real direction and focus. But Sam was brutally honest about what we had to do to position ourselves to do business with Verizon. He did not try to sugarcoat it.”

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