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MARCHING TO A NEW DRUMMER Series: After The Bubble Burst

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[EXCERPT]

Hyde Park Capital Partners

Investors demand real results

In March, when the Nasdaq was at 5,200, John H. Hill and his partner, John McDonald, planned to raise a \$100-million Internet fund and become venture capitalists.

Six weeks later, after the Nasdaq had plunged to 3,300, the two former investment bankers with Raymond James and Associates changed their minds and canceled the fund. Today, with the Nasdaq at about 2,500, Hill and MacDonal have found a different niche: Their Tampa company, Hyde Park Capital Partners LLC, works with struggling new tech companies to find cash or buyers.

"There's a huge amount of opportunity for what we do," Hill said at his company's elegantly appointed offices in the old Mercantile Bank building on Tampa's North Franklin Street. "They always say that fear and greed drive the markets. Nine months ago, it was greed. Now, fear is the bigger factor."

But that doesn't mean Hyde Park Capital's job is easy. Though Hill said plenty of private equity, particularly institutional money, is still going into well-established venture funds, investors' criteria have changed.

Entrepreneurs with nothing more than ideas don't stand a chance, nor do early-stage start-ups. Companies have to have revenues and a target date for becoming profitable.

"There's a lot of window shopping, but investors are afraid to pull the trigger," Hill said. "The hardest part is to find a lead investor."

He should know. Hyde Park has about a half-dozen deals on its plate. None has yet been finalized. And Hyde Park's commissions and fees aren't earned until the deals are signed.

"It takes a long time to close these deals," Hill said. "We've been doing this six months and expect one to close within the next couple months."

Hill, 39, doesn't seem rattled by the wait. He has a bit of a cushion: In February, Hill raised \$3.26-million by auctioning his Tarpon Springs mansion and 44 vacant lots to finance Hyde Park Capital, which has six employees.

Hill and McDonald, who worked with Morgan Stanley before joining Raymond James, have seen plenty of business cycles. While managing the technology group in investment banking at Raymond James, Hill headed the company's underwriting in 1996 of the initial public offering of CHS Electronics Inc., a Miami computer reseller. The company had sales of \$8.5-billion in 1998; last year, it filed for Chapter 11 protection.

"It was like Icarus," Hill said. "Fast rise, fast fall."

Hill will talk only generally about several of Hyde Park Capital's current efforts. It's trying to sell two private technology companies, one in Naples, the other in Reston, Va. It's also trying to find a buyer for a public company and take another one private through a management buyout.

"I think you'll see a lot more M&A (merger and acquisition) activity as leaders in a space do strategic buyouts," Hill said. "You'll also see financial buyers step in. But a lot of public and private dot-coms simply won't make it because the company isn't even saleable."

Hill is more candid about three clients seeking investors through Hyde Park Capital, which Hill said has ties to some of the biggest venture capital firms in New York and Boston.

He's enthusiastic about efforts to raise \$5-million for Gemisis, a Gainesville company that has developed technology for synthetically growing diamonds from diamond crystals. "The jewelry market is huge and then there are the possible applications in electronics," Hill said. "Unfortunately, consumer product plays are really out of favor." Hyde Park Capital also is seeking first-round financing for MediaBrowser.com Inc., a Largo software company that produces branded desktop browsers for customers such as Pokemon, NASCAR and Star Wars. (Mike Siewruk, chief executive of MediaBrowser, is a silent partner and individual investor in Hyde Park Capital.) Though MediaBrowser brings in some revenue by licensing its software to the brands, the mother lode was expected to come from sponsored ads, which have yet to materialize.

"They have good contracts, but they have to build up their user base before they sell ads, and that's going to take time," Hill said. "The Internet ad space is also in turmoil."

As a result, Hyde Park Capital has slimmed down its funding goal for MediaBrowser from a maximum of \$10-million to the \$2-million to \$3-million range.

Hill is most enthusiastic about his company's fund-raising efforts on behalf of Decision Management International of Sarasota. The company has \$12-million in revenues from its health care consulting business, Hill said. It is trying to raise up to \$10-million to finance development of software that will help big pharmaceutical companies comply with FDA regulations, the focus of its traditional consulting business.

"We're getting a great response because it's a later stage company and it's profitable," Hill said.

As Hill tries to snag the interest and investments of venture capital firms, he recognizes that the world has changed dramatically in the past year.

"The little funds are too busy doing triage on their portfolios, and the big funds are looking for deals, but they're not going to be pressured," he said.

The upshot of the tech correction, Hill said, is that existing technology companies lucky enough to have cash flow will grow, but at a slower rate than in the past. And new ideas? "There are probably a lot of good ideas," he said, "that won't get funded."

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