

VENTURE FUNDS FLOW TO FIRMS DEVELOPING UP-TO-DATE TECHNOLOGIES

ID Verification Tools, Internet TV Among Top-Funded Devices

By NED RANDOLPH, San Diego Business Journal Staff, 3/3/2008

In the six seconds that it takes a retailer to process a credit card application at the register, its customer's identity is raked across massive amounts of statistical data and cross-referenced against purchase patterns, income and applications to determine the authenticity of her identity.

The process - called analytics - is an evolving science that consists of analyzing digital footprints of consumers around the world.

San Diego-based ID Analytics Inc. - which assigns a "probability" factor to one's identity - was among the top venture capital winners last year closing on \$20 million in Series C funding.

"You have a FICO (credit) score, which is the probability that you are going to pay a bill," said Bruce Hansen, co-founder and chief executive officer of ID Analytics. "Well, there's also an ID score, a statistical score which is the probability you are who you say you are - in this case, the higher the score the more risk associated with your identity."

Analytics is broadly defined as the science of analysis. As business moves more towards faceless e-commerce, the market for identity verification and identity security continues to grow.

"We have visibility of what an identity is doing across accounts and industries," Hansen said. "If you decide to open a new account at Discover Card, it may look fine to Discover Card. But Discover Card might check with us and discover that you've tried to open 17 other credit card accounts with companies."

Protecting Identities

When a laptop computer containing U.S. Department of Veterans Affairs data was stolen in May 2006, the personal information of its 26 million patients was compromised. It was considered the single largest information security breach in government history.

The VA turned to ID Analytics to analyze transactions such as online purchases that could signal identity theft of patients, Hansen said.

ID Analytics does not disclose who its clients are, but they include six of the 10 largest credit card companies, four of the five largest wireless carriers as well as retailers and other institutional companies, Hansen said.

When joining ID Analytics, a client voluntarily turns over its transaction logs and databases of personal information, which increases ID Analytics' efficacy with each new client.

"It snowballs. We get 8 million to 10 million new identity attributes each day flowing into the network," Hansen said. "It's a living, breathing dynamic network."

Analytics arguably started in the '60s and '70s with academic scholars intent on finding smarter ways to analyze large sets of data, Hansen said.

It was commercialized by HNC Software Inc. in San Diego, which was a \$1 billion provider of analytic software for financial services, telecommunications and health care firms. HNC was acquired in 2002 by Fair Isaac Corp., a publicly traded firm in Minneapolis that still employs 450 people in San Diego from the former HNC unit, said Hansen, who himself is the former president of HNC Software.

"They're kind of the king of analytics and work for all the credit card companies," local venture capitalist Leo Spiegel said of Fair Isaac. "Every time you fill out a credit card application they try to find out if you are who you say you are."

Analytics Firms Multiply

Spiegel is managing partner of San Diego-based Mission Ventures, which participated in the Series C funding round for ID Analytics. He said HNC Software ended up spawning about a dozen analytics companies in San Diego.

While analytics is widely viewed as one of San Diego's core competencies, the founder of Internet TV startup company Veoh Networks Inc. said he had to resist overtures to move his San Diego operation elsewhere because he couldn't find local investors.

Veoh Networks, which hasn't raised any venture capital from San Diego, employs 70 of its 120 staff here, said founder Dmitry Shapiro.

His first round of venture money was \$250,000 by LA Ventures in July 2005, followed by a second round of \$12.5 million in April 2006, capped off by the latest round of \$25 million funding led by The Goldman Sachs Group Inc. in July.

All of its original investors are still on board, and have been joined by the likes of The Walt Disney Co.'s Michael Eisner, two former Viacom Inc. CEOs and, of all companies, Time Warner Cable.

"Consumers are just now understanding they can watch video, not 30-second clips, but full-length episodes and movies online," Shapiro said. "More content publishers are coming on board, realizing the Internet is a valued channel for distribution, not just promotion."

Veoh not only broadcasts user-generated videos - which are higher quality and allow for longer episodes than the 10-minute caps set by YouTube - but it broadcasts hit TV shows and movie catalogs from NBC Universal, 20th Century Fox, CBS Corp. and other studios.

A viewer can as easily watch last night's episode of "30 Rock" as their neighbor's video of Skippy the Squirrel on water skis.

"We're going to continue doing what we do and be innovative," Shapiro said. "Internet TV is just now starting - we're in the beginning of the first inning. There are lots and lots of things to do."

More studios are putting their catalogs online, which enables viewers to have a more personalized interaction. Studios also see the Internet as a way to break the monopoly of local cable companies, Shapiro said.

"Studios and networks are not threatened by this because they're at the mercy of the gatekeepers, which are the cable operators," he said. "In fact, we are leverage for them in renegotiating contracts with cable companies."

Last month, Veoh Networks had 23 million unique viewers on its online video service and last year the company grew more than 700 percent, Shapiro said.

"The beautiful thing about Internet TV is that there are a huge number of people producing - not just traditional producers, but literally thousands of independents who don't go on strike. They do it for the love of the art, for a living, etc.," he said.

"All of the dynamics are changing dramatically," added Shapiro, who prior to launching Veoh Networks was running a venture-backed computer security company called Akonix Systems Inc. of San Diego.

"I'm not moving. I've been in San Diego since 1999. I moved here, worked for my college club. My wife and I love this town and now my family is here. I'll be building more companies in San Diego moving forward."



Bruce Hansen is co-founder and CEO of the ID Analytics firm that pioneered identity scoring, a systematic method of analyzing data to verify a person's identity.