

CAPITAL SOLUTIONS NEWSLETTER...

February, 2010

Are the amorous glances from the venture industry for 2010 real, or do they signal the end of the venture affair? In addition, two of the most anticipated companies of the past decade slip quietly into the New Year's night; alternative funding sources beacon; and high school hallways mimic venture professionals -- or is it vice versa.

The End of the Affair?

The proximity of Valentine's day provides suitable context for the rash of industry love letters proclaiming the resurgence of the venture capital industry. Venture professionals, media reports tell us, are starting to [ramp up their investments](#), see a [bright 2010](#), and increasingly believe that [venture is back, baby](#).

Not so fast. As the venture industry reforms, it will take some time before one can accurately gauge its shape. As with any market consolidation, the rich will likely get richer: the list of the [most active](#) VCs in 2009 is a familiar litany of names (note especially Sequoia with 42 investments in the year after proclaiming "[RIP Good Times](#)"). And NEA just raised a monster [\\$2.5 billion](#) fund, suggesting that the [Sand Hill Road](#) icons will endure.

But at the same time, and far harder to document, is the demise of a great silent mass of middle funds -- particularly those located in between the coasts and with fund sizes between \$200-600 million. Many VC firms are receiving *Dear John* letters from their [LPs](#), as [overall fund raising fell 55%](#) last year.

2010 can still see venture romance spring anew, but if you are looking for capital, expect a few promising dates where your venture partner then takes a few days break to think about things, and [never comes back](#).

What Was Once New

As the new year slipped into memory, two transactions may provide the footnote on the hyped expectations that accompanied the last decade. First is [Friendster](#). The pioneer social networking company and Facebook's predecessor, Friendster had lost virtually all of its US market share to MySpace and Facebook. Friendster was even [profiled](#) as "*once the hottest start-up in America, [it then] became the butt of a business joke.*" Despite the demise in the US and Europe, the company remained strong in Asia and [was acquired](#) by the Malaysian company MOL Global.

Secondly, the Seqway scooter, a product that was once heralded by John Doerr as potentially a bigger innovation than the internet itself and raised over \$175 million in venture capital was [quietly](#)

[sold](#) on Christmas Eve. The [Segway](#) -- a personal electric scooter -- was acquired by a company in the UK. Press reports state that from the product introduction in December of 2001, through March of 2009, only 50,000 were actually sold.

Financial details of both transactions, as they say, were not disclosed. This is the way expectations crash, not with a bang but [with a whimper](#).

Alternative Capital Sources

With many small businesses losing their lines of credit, coupled with the demise in small business lending from commercial banks, alternate sources of capital such as purchase-order financing are on the rise, as the *New York Times* [details](#). For companies with large orders and without hard assets, purchase order financing -- and other ways of borrowing against receivables -- has become a business necessity. While *Entrepreneur Magazine* lists some [options](#), many are expensive and can result in higher fees than expected.

Also somewhat overlooked in the scarcity of traditional capital sources is the continued availability of [mezzanine debt](#). Many mezz funds have committed capital, and are actively looking for companies with solid cash flows and strong fundamentals that have been caught in the credit squeeze. While this can be expensive capital, it often prices favorably compared to receivable financing. ClearCreek has relationships with over 100 mezzanine lenders; call us if we can be of help.

Venture Gossip Girls?

New research from my [alma mater](#) suggests that preparation for a career in venture capital might include a lot of time watching the [WB network](#). In the brief [paper](#), the author's note that given the low industry barriers to entry, established venture firms form cliques in much the same way that popular teens preserve their social hierarchy by establishing themselves as the cool kids.

Specifically, *"venture capitalists in tightly networked geographic markets discourage new entrants by using some of the same behaviors exhibited in high school hallways."* Well then... catfight anyone?

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Regards,
-alex

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