

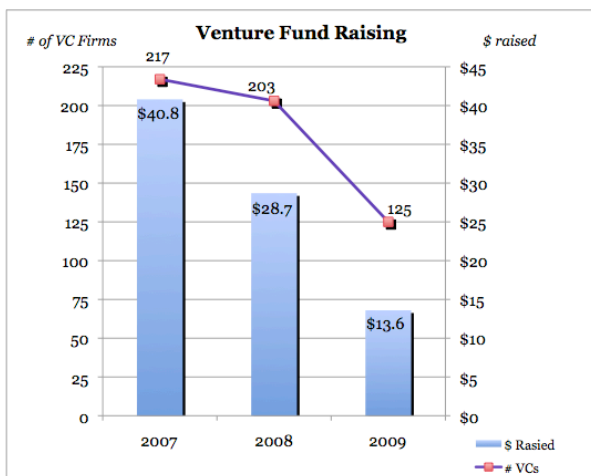
**CAPITAL SOLUTIONS NEWSLETTER...**

March, 2010

Is the breeze emanating from the venture industry a breath of fresh air, or a series of strikes? A variety of venture participants think Seed stage is the new Series A – at least in the quest for omniscient deal documents, but Foundry's Brad Feld calls foul and asks for a team huddle. And if you are an entrepreneur and selling a pound of your flesh – why not go direct? Lastly, some more dirt surfaces on the underbelly origins of Facebook.

**Three Strikes. Who's Not Out?**

There has been considerable press on the impact of venture industry consolidation for early-stage companies. Less attention has been paid to the shifting dynamics between venture firms and their limited partners, and within venture syndicates.



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First is [the shakeout](#): fundraising is down -- way down. Since just 2007, the number of firms raising new capital has dropped by 42%, and the amount of money raised declined a whopping 67% (see chart).

Second is a [reduction in fees](#): even the limited VC firms that are raising money are no longer commanding premiums, and at least one is cutting its target in half and guaranteeing a 100% return in capital across the fund before taking any share of profits.

Third is increased friction within VC syndicates, with some firms just [walking away](#) from portfolio companies, much to the dismay of their funding partners.

Most indications are that the fundamental changes to the venture capital market will be more forceful than we saw after the burst of the tech bubble in 2000. And why not – most VC firms raised money in the late 90s with the mandate to invest for a number of years. Many of those funds are just now hitting the wall. And when you have been going faster than you probably should have, the wall is damn hard.

**Seed is the new "A"**

With the traditional venture model under assault, there is an increased focus on seed-stage funding. Back in [September](#) we noted the attempt to create a standardized Series A term sheet. Now there is similar stakeholder interest in moving further upstream, with a prominent Silicon Valley attorney

creating a downloadable set of Seed Stage [documents](#) free to all parties.

The logic behind this makes sense – instead of the \$5-10M it used to take a new company to launch a product, a firm can now often get to commercial stage for under \$1M – however the legal costs of an investment have not similarly declined. But he who controls the docs controls the deal, and Brad Feld is among those voices somewhat [underwhelmed](#). Noting that there are now four different groups all looking for their fertile furrow for seed stage docs, Brad decides to try to get representatives of all four in one room to hammer out an omnipotent single version. If that works, there is a little dispute in the Middle East he might negotiate.

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## What's the ROI on that Pound of Flesh?

Three young guns – and not a detained Nigerian prince among them – are [currently offering](#) investors a chance to invest cash now in return for a percent of future income. One, a 26-year-old Stanford grad, has even priced it out: 6% of future income for \$600,000. Even with no hurdle rate, this would require her to average annual income of over \$250,000 until she is 65 just to break even. And you don't even get observation rights.

But necessity is the mother of invention. As the WSJ notes, commercial bank lending continues to fall at an [epic pace](#), registering their biggest full-year decline in total loans outstanding in 67 years. More than 5% of all loans are over 90 days due. So if you are going to sell your pound of flesh, why not go direct?

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## Billionaire Hot or Not?

Already the subject of a [book](#) or two, the origins of Facebook are now providing enough soap for a full-scale opera. [A new article](#) charges that FB founder Mark Zuckerberg [hacked](#) into different accounts and used various means of subterfuge to ensure that his creation would surpass that of a similar idea from some older classmates, who eventually sued him. But perhaps all sophomores can take heart that FB started out as an undergraduate Crimson "[Hot or Not](#)." Oh, and don't feel too bad for the deceived upperclassmen, who eventually walked away with a \$65M settlement. That's a lot of [FarmVille](#) chickens.

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