

CAPITAL SOLUTIONS NEWSLETTER...

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With the debate over carried interest coming to a conclusion, we go back to one of the questions that started it all: should Warren Buffet pay a higher tax rate than his receptionist? Plus, several lists and graphics depict both the most innovative regions and countries, and the best colleges and universities for technology leaders. And while it's long been true that women are underrepresented as VCs and venture-backed entrepreneurs, why are most female-owned companies smaller than those of men? Lastly, do VCs really take the summer off?

The Things They Carried

Amid financial and regulatory oil slicks is an ongoing debate about carried interest, which Warren Buffet [once characterized](#) by asking why his receptionist was paying a higher tax rate than he was. She did so because investment funds -- including venture capital -- make money on "carried interest" (or just "carry") which is the fund's share of profits from their investments. Carried interest is currently taxed at the capital gains rate (about 15%) instead of as ordinary income (taxed at a rate roughly twice as high). Back in 2006, this allowed Buffet to pay a tax rate of 17.7% on gains of \$46 million, while his receptionist paid 30% of her \$60,000 annual salary.

Venture capitalists have taken both sides, with Fred Wilson [arguing](#) for changing the tax laws both as basic fairness and sound monetary policy, while Gerry Langelier (of OVP Partners) [believes](#) that a change would harm investment and makes an analogy with home ownership. Several [academic reports](#) have added to the mix of opinion.

There are many tax loopholes for business startups (including [this one](#)), and this debate has ebbed and flowed for months, but last week the US House of Representatives voted to change the tax treatment of carried interest, over time, to a hybrid of 25% capital gains and 75% ordinary income. The Senate takes up the measure this week [UPDATE?], and it seems that the hybrid model is likely to prevail at some level. Oddly, the concern over the economy means legislative fear of further inhibiting growth, so the percentage of carry taxed as ordinary income will likely be less than the proposed 75%. And amid all the sound and fury, the irony remains that fund managers, who often take as their religion the elimination of government subsidies and the level playing field of market efficiency, will argue that they should continue receiving what policy experts gently describe as income "*taxed more lightly than almost all other forms of compensation for similar services**" and what critics call an, um, federal handout.

Lists: The Most Innovative Countries, and Colleges for Tech Leaders

Management consulting firm McKinsey conducted a [study](#) to find the most innovative regions (and nations) across the globe. They helpfully present their findings with an [interactive version](#) (which, like true consultants, divides the world into analogous bodies of water, including "*dynamic oceans*" "*silent lakes*" and "*shrinking pools*" -- and no, I am not making this up).

One can bail water out (sorry) to reveal specific geographic regions. In the US, Silicon Valley leads (as a "dynamic ocean"), followed by (no order) Chicago, LA, NY, Boston, Minneapolis, SF and Anaheim. And if the visual does not hold water, you can head over to the online Daily Beast, which helpfully provides a [slideshow](#) ranking the top 12 countries. In order: USA, Singapore, Finland, Israel, South Korea, etc.

The Daily Beast also [lists](#) the top schools at producing technology leaders (including another [slideshow](#)), with some surprising results as none of the top four are technical schools (of which the highest is MIT at #5, and Cal Poly does not make the list). The highest-ranked school for technology leaders? Well, just imagine if [Flounder](#) founded Google...

Women at Work...

That the venture capital industry is dominated by men is [hardly new news](#), and a new VCJ story ([gated](#) - so here is a recent [article](#) and a historical [study](#)) notes that just 5% of partners at the 50 most active venture firms are women. However this theme has been extended with a recent Business Week [article](#) title bemoaning the lack of female entrepreneurs, which trod unabashed into the dangerous ground of comparing female and male entrepreneurs. Not a big surprise then to find the author's subsequent attempt to [deflect criticism](#) with a defense worthy of [Animal House](#): an indictment of society.

Far more interesting was a [longer WSJ article](#) wondering why -- despite the growth of women-owned businesses (which mostly fall outside the venture funding parameters above) are those firms consistently smaller than companies owned by men? This piece looks, much more seriously, at the underlying social factors, including studies showing that women are less inclined towards debt to finance growth, and are more suspicious of banks.

[Two months](#) ago I noted a study that posited how overconfidence made men worse investors during an economic downturn (see [article](#)). However it stands to reason that the same overblown faith in their abilities may make men more likely to take risks that results in larger companies -- but if so, one might expect that there are a disproportionate number of business failures at male-owned companies. Just selectively picking from the headlines, I don't recall a lot of women leaders at Enron, Lehman, or Pan Am. If anyone knows of some data, send it on.

Summer Funding ([happened so fast](#))...

It has long been a repeated truism that one can't raise venture capital over the summer. Last year a VC actually [looked at the data](#) and finds both that an equal proportion of deals close in the summer months, and that his own firm's busiest closing month was August (followed, oddly, by December, which is usually seen as another holiday taboo).

My own experience here is mixed. The fastest deal we ever helped close launched in late July (and I had a few sweaty conference calls from a makeshift attic office in Maine), and while we often avoid summer deals, we put seasonality pretty far down the list of important factors. However I do find that it gives some VCs a relative advantage to others -- the firms whose partners either pair up

during the process or cover for each other tend to be much more efficient. I've seen a venture firm who moved quickly over the summer leave several other firms in their dust: the latter had partners who were unavailable during vacations, while the former neatly (and seamlessly) passed the baton around. So don't fear the summer months for fundraising -- I think the summer delay says more about the coherence and teamwork among some venture firms than it does about any individual companies prospects.

Alexander Ooms | Managing Partner

alex@clearcreekpartners.com

303.731.2960

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