Inside The Breakup Of One Of Silicon Valley's Douchbag-iest VC Firms

Joe Lonsdale and Brian Koo set out to conquer Asia and claim a prize that has eluded the American tech elite for decades. Now, they'll be lucky to open a Korean restaurant in Palo Alto.

Picture of William Alden William Alden BuzzFeed News Reporter

Brian Koo often compared his business partnership with Joe Lonsdale to a marriage, and the two budding investors did seem an ideal match. Lonsdale is a prince of Silicon Valley, with a gold-plated Rolodex, while Koo, a scion of the LG business dynasty in South Korea, has access to the wealth and industrial networks of Asia.

The two men, who both attended Stanford, would chat about business ideas and possible investments, and Koo enjoyed his friend's fast-talking style. While Koo has a reserved demeanor, Lonsdale gives off the impression that his mouth can't keep up with his whirring brain. Lonsdale, a co-founder of the high-flying data analysis startup Palantir Technologies, helped Koo's fledgling investment firm, Harbor Pacific Capital, gain access to Palantir shares. Later, when Koo was looking to open a hip

Korean restaurant in downtown Palo Alto, Lonsdale would sign on as an investor in his friend's passion project.

Sportsfile / Getty Images, Via youtube.com

In 2011, after several years of courtship, they agreed to tie the knot, joining forces to become Silicon Valley's gatekeepers to Asia. Many American tech entrepreneurs have fantasized about China — a seeming promised land, with a vast consumer economy and the world's biggest population of internet users — and many dreams have been dashed by homegrown competition, friction with the government, or a misunderstanding of the culture. But Koo and Lonsdale's dream was particularly bold: They pledged to start a venture capital

firm that would conquer Asia not once, but repeatedly, on behalf of the US startups they invested in. Their firm, Formation 8, which they started with a third partner, Jim Kim, raised nearly \$1 billion in capital and soon became known as a top player, with prescient bets on startups including the virtual reality company Oculus VR.

But the San Francisco-based firm's ultimate breakup last November — the story behind which has never previously been reported — shows how challenging it was to connect these two business worlds separated by the Pacific. Koo failed in a costly attempt to help a major startup backed by Formation 8, the \$3 billion e-commerce app Wish, establish a presence in Asia. And sexual assault allegations filed against Lonsdale in early 2015, which he strongly denied, opened a painful rift with Koo's father — a leading Korean industrialist and key investor in the fund.

After the Wish failure, Lonsdale expressed doubts about Koo's efforts in Asia, and Koo, keen to add Asian companies to Formation 8's portfolio, questioned whether Lonsdale was fully committed to his vision for investing there. But the sexual assault lawsuit brought these simmering tensions to a boil.

When the lawsuit landed, Koo was taken aback, and he confronted his partner to ask why he hadn't been given advance warning, according to people with direct knowledge of the matter. Koo's father, John, a prominent figure in a culture where public reputation and family honor are paramount, viewed the Lonsdale case as a stain on the family's reputation. As the legal fight dragged on, Koo came under immense pressure from his father and others in his circle to distance himself from Lonsdale.

The disintegration of Formation 8 was officially attributed to a divergence in investing styles among the founding partners, and the three men have each set up new investment firms with distinct goals. But a BuzzFeed News investigation, based on internal documents and interviews with 14 people who worked at the firm or were close to its founders, has revealed that the firm's breakup is yet another entry in a long list — one that includes efforts by Microsoft, Google, Groupon, and, most recently, Uber — of thwarted attempts to bring Silicon Valley and Asia together.

Koo, in an email to BuzzFeed News, suggested that the divorce had caused personal strain.

"There were critical things for me when I decided to separate from Joe and put Formation 8 into history," Koo, who is 36, said in the email. "I went through a tough time only to keep integrity in my life."

Later, after a discussion with Lonsdale, Koo sent another email to BuzzFeed News and looped in his former partner.

"We learned a lot and shared a lot of success over five intense years and are very proud of what we accomplished," Koo said in that subsequent email. He said Formation 8 broke up "based on what we learned about our investing styles and areas of focus."

"Joe and I worked so much together raising a first-time fund and we share great memories from that work which will remain with us for a very long time," Koo added. He said he and Lonsdale "remain not only good friends but allies in our current endeavors."

Lonsdale, 34, said in an emailed reply that he had no further comment "other than to concur with Brian."

The third partner, Kim, who is 38, said in a separate emailed statement that he was "proud of what we accomplished so quickly in becoming one of the top venture firms in Silicon Valley. As we each move to the next phase of our careers, I will cheer for my partners and I'm excited to continue building great companies."

While Koo and Lonsdale tasted disappointment in venture capital, their luck in the restaurant business hasn't been any better. Their attempt to open a Korean eatery in the vacant building in Palo Alto that once housed Silicon Valley's first Apple store — where Steve Jobs selected some of the interior tile — has been mired in municipal red tape. Today, nearly three years after the restaurant proposal was submitted to the city, the onetime Jobsian temple where Koo pays monthly rent is a forlorn relic, with a dark curtain blacking out its glass facade.

Formation 8 started, as many a Silicon Valley scheme does, with a lot of hype. A *Fortune* article in 2013 described the Formation 8 founders as "the hottest VCs since Andreessen," referring to the venture capital firm Andreessen Horowitz (which is an investor in BuzzFeed). Lonsdale, a protégé of the billionaire investor Peter Thiel, had become famous in his own right, and he had insider access to the network of engineers and entrepreneurs who had worked at Palantir. Koo, whose father ran the LS Group, an industrial offshoot of LG, showed the breadth of his connections in the Korean business world when he got the K-pop star Psy — remember "Gangnam Style"? — to meet with Formation 8's startups in Silicon Valley.

While Lonsdale's formidable network drove headlines in the US, Formation 8's secret weapon was always the chaebol, or business conglomerate, controlled by the Koo family. South Korea's chaebols — including global giants like LG, Samsung, and Hyundai — were formed over half a century ago and are the pillars of the country's economy. Brian Koo's extended family controls LG, and his father is the former head of LS, a spinoff that produces cable, electrical equipment, and heavy machinery.

Chieftains such as John Koo, descended from the chaebol founders, are <u>like royalty</u> in Korea, even in the face of <u>recent scandals</u>.

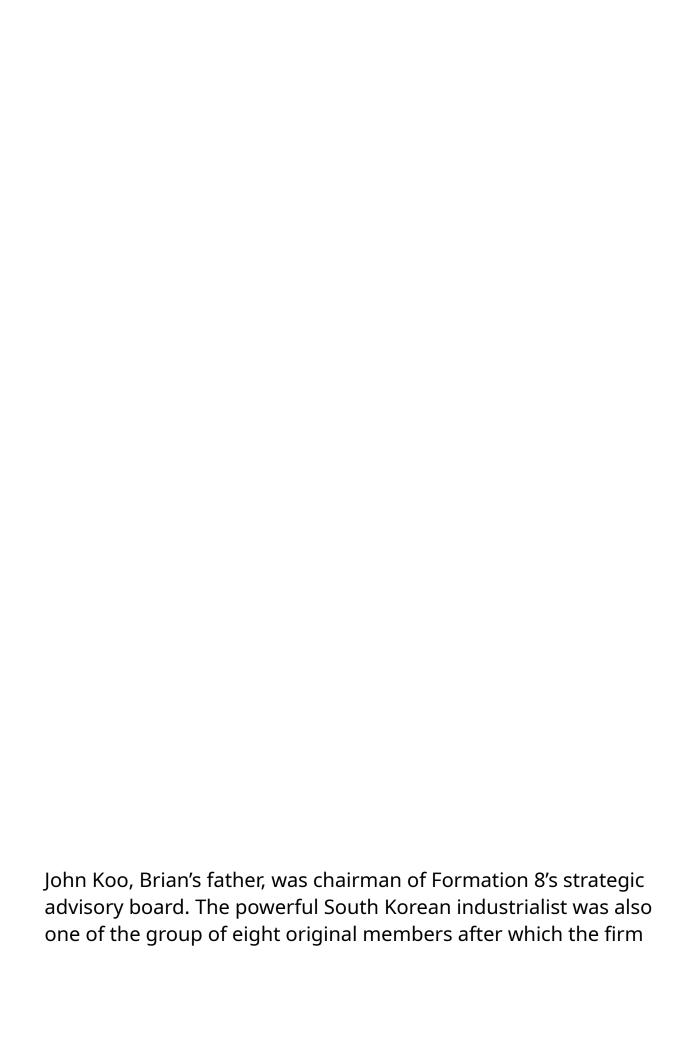
To cut his teeth in the economy of the future, Brian Koo left Seoul as a young man and went to Stanford, collecting an undergraduate degree in economics and staying to attend business school. (A thesis paper he wrote discussed how Korean companies could expand into China.) In 2010, as newly minted MBAs, Koo and two business school classmates started a venture capital firm, Harbor Pacific, raising between \$40 million and \$50 million in capital. Their stated goals included helping American startups find business opportunities in Asia, and helping Asian ones break into the US. That year, Lonsdale helped them buy Palantir stock.

But Koo soon left Harbor Pacific to create what was essentially a bigger expression of the same idea. In June 2011, despite having made a multiyear commitment to Harbor Pacific and its investors, Koo secured a new promise of capital from the LS Group, with plans to start a separate fund, according to a confidential fund document and people familiar with the matter. His two partners, alarmed by what they saw as a conflict of interest, insisted that Koo leave Harbor Pacific. He was out as a full-time partner by the end of 2011, starting at Formation 8 in the new year.

Mirroring the Koo family's expertise in the energy sector, Formation 8 set out to raise a \$500 million fund focused on clean technology and infrastructure investments, a confidential pitch deck from that time shows. (Later, the scope was broadened to include business software and e-commerce.) Koo recruited Jim Kim, who was a partner at the venture firm Khosla Ventures and had a track record in investing in energy technology.

Lonsdale — once an intern at PayPal and later an executive at Peter Thiel's hedge fund, Clarium Capital — was prized for his "famous SV network," the Formation 8 pitch deck says, using initials for Silicon Valley. Along with Thiel and others, Lonsdale had helped start Palantir, which today has a \$20 billion valuation. While perhaps too junior to be considered a true member of the "PayPal mafia" — the group of former PayPal employees who went on to found or lead tech giants including YouTube, Tesla, LinkedIn, and Yelp — Lonsdale was "friends with many of the founders of the companies that came out of PayPal," the deck notes.

LS committed to invest \$50 million into Formation 8, as an anchor investment to get the fund started, according to confidential fund documents. To compensate LS for taking an early chance on the fund, it was promised a cut of the profit collected by the fund managers, in addition to any gains on the capital it invested, a private placement memorandum shows. (Such an arrangement is not unusual for anchor investors, who play a crucial role in helping first-time venture capitalists raise a fund.) Formation 8 <u>announced</u> in April 2013 that it had raised \$448 million, just shy of the initial target.



was named. LS, which he ran at the time, would "offer tremendous market penetration and contacts in Asia," the pitch deck says. Such access would be central to the firm's strategy, which, according to the deck, was to "invest in U.S. technologies and help companies establish business in Asia."

As proof of its ability to realize its founding vision, Formation 8 could hardly have asked for better than its work linking Oculus, the hottest American startup in the white-hot world of virtual reality, with the Korean electronics giant Samsung.

Oculus was small — it had recently raised money through a Kickstarter campaign — but it was quickly earning a reputation in tech circles as a breakthrough company in the making. After investing in mid-2013, Lonsdale and Koo took a private jet together to the startup's headquarters in Irvine, California, to double down on their bet through a second funding round. In San Francisco, Koo had organized an introductory event for Samsung executives at Formation 8's office, helping Oculus establish a manufacturing partnership with the Korean conglomerate. Samsung and Oculus would go on to release Gear VR, a landmark virtual reality headset for the mass market.

Oculus's early success didn't go unnoticed by the tech establishment, and in March 2014, Facebook bought the startup for \$2 billion. It was a massive payday for Formation 8 — and, perhaps even more importantly, it sent a signal to Silicon Valley that the young firm had arrived. Formation 8 recorded an 84% internal rate of return in its first fund as of the end of December 2015, putting it among the top funds of its class, according to two people with knowledge of the matter.

Tomohiro Ohsumi / Getty Images

A visitor wearing an Oculus Rift headset at the Tokyo Game Show 2016

But even as Oculus was rising, another important test of Formation 8's investment thesis was quickly turning into a disaster. Wish, a scrappy challenger to Amazon, was prized for its artificial intelligence technology, which analyzes a customer's purchase behavior to deliver tailored product recommendations. Koo, Lonsdale, and Kim had personally invested in the startup behind the Wish app, ContextLogic, according to two people familiar with the matter, and transferred those stakes to Formation 8's first fund. They viewed Peter Szulczewski, the former Google engineer who was the ContextLogic CEO, as an especially important entrepreneur in their portfolio.

"We just cannot screw up with Peter," Lonsdale would tell Koo, according to someone with direct knowledge of the matter.

To help Szulczewski establish a presence in Asia, Formation 8 proposed the creation of a Korean joint venture, a new entity financed with capital from both Formation 8 and ContextLogic. This gave Formation 8, which already had a piece of Wish, a direct stake in the startup's foray into Asia. The joint venture, called ContextLogic Korea, was based in the same building as Formation 8's Seoul office, with the two logos side by side on an office wall, a photograph obtained by BuzzFeed News shows.

Wish

Screenshot of the Wish app.

But Szulczewski was reluctant to give ContextLogic Korea access to the Wish technology, instead preferring to crunch the Korean data in San Francisco and send the results back to Seoul, two people familiar with the matter said. This approach frustrated the ContextLogic Korea engineers, who began building their own app, with their own algorithms, the people said. When Szulczewski finally visited the Seoul office, he became furious with the engineers' efforts to create what was essentially an inferior imitation of Wish, according to four people with knowledge of the matter. One person who spoke with Szulczewski at that time said the Wish CEO viewed the Korean product as a competitor.

Koo oversaw this effort and apologized to the engineers in Seoul after its failure. ContextLogic Korea later changed its name to Style Shop, with a new website registered in May 2015, domain records show. But that website, which displayed information about a shopping app as recently as April, is currently blank. At least three engineers and the entity's CEO no longer work there, LinkedIn profiles show. Members of Wish management did not respond to numerous requests for comment.

The frustrations surrounding the Wish project and other efforts came to a head at a December 2013 meeting at Lonsdale's house in Woodside, a leafy enclave south of San Francisco. Formation 8

employees, including some who had flown in from Korea, China, and Singapore, made their way down the long, tree-lined driveway to the house's marble foyer, continuing to the sunken living room and the dining room with its long table and high-backed chairs. A white board had been rolled in for the occasion.

Lonsdale, his hurried speech containing a note of agitation, told Koo and his reports from Asia that he was disappointed with their struggles to make progress there, according to people who were present. While Lonsdale had expressed similar sentiments previously, doing so in front of the entire firm was unusual, the people said. With Koo and his team absorbing the lecture, Lonsdale questioned whether Formation 8 should be committing so much money to their projects in Asia, according to contemporaneous notes taken by someone who was there.

As Formation 8 began raising a second fund, Koo said he wanted to invest in Asian startups at a later stage of their growth, a departure from the strategy of betting on younger American startups. But Lonsdale expressed reservations, according to people familiar with the matter. Formation 8 did end up investing in two Korean startups, including the \$4 billion mobile apps company Yello Mobile, and Koo set out to raise a special fund for later-stage deals in Asia. But Koo got the sense that his partner was less interested than he was in pursuing this vision.

Every venture capital firm has its share of business missteps, and the ones at Formation 8 were not enough to splinter the firm. But the lawsuit filed in early 2015 by Lonsdale's exgirlfriend, Elise Clougherty, accusing him of sexually assaulting

her repeatedly during their relationship, plunged the firm into crisis.

On the evening of Jan. 27, 2015, Formation 8 celebrated its three-year anniversary with an <u>elegant, mood-lit bash</u> in San Francisco's South of Market neighborhood. Later that night, a small group went to the house of Drew Oetting, Lonsdale's chief of staff, for an unofficial afterparty. Kim was the only founding partner to make it that far, and his evening soon took a turn for the worse. He got a call from Lonsdale, who broke the news that Clougherty — a woman eight years Lonsdale's junior, whom he had mentored while she was an undergraduate at Stanford — had given her assault claims the force of a lawsuit.

Kim appeared shocked and angered, pacing while on the phone in Oetting's living room, according to people who were there. He soon called Koo, and then walked out to the balcony to continue making calls for at least the next hour. Koo also appeared stunned by the news, and he was bothered that Lonsdale hadn't warned him a suit might be coming, according to three people familiar with the matter.

When Koo later confronted Lonsdale to express this concern, Lonsdale replied that he had been advised by a lawyer not to tell anyone, not even his own father, according to two people with direct knowledge of the matter. Koo came away with the impression that he couldn't trust Lonsdale, according to someone familiar with his thinking.

Lonsdale had been in private negotiations with Clougherty for months before the lawsuit was filed, and Stanford had even banned him from its campus the previous June (the ban was later lifted). Lonsdale told senior members of Formation 8 about aspects of the situation with Clougherty, according to three people with knowledge of the matter, but there's no evidence that he or his legal team warned them of a coming lawsuit. Formation 8 had recently raised its second fund, with \$500 million in capital, and a number of insiders questioned why Lonsdale hadn't discussed a possible lawsuit during fundraising.

Lonsdale countersued his ex for defamation and finally settled the matter last fall. Some Formation 8 investors told Lonsdale they were sympathetic, suggesting that he was being targeted for his wealth, according to two people familiar with the matter. A <u>New York Times feature</u> about the case, widely read in Silicon Valley, included quotes from a friend of Clougherty's that appeared to cast doubt on her claims.

But the case was greeted with less sympathy outside Lonsdale's immediate circle. Even the facts that Lonsdale did not deny, including that he had had a romantic relationship with a collegeage mentee, raised eyebrows.

"SCANDAL AT STANFORD," read a teaser headline on the front page of a Sunday edition of the *Straits Times*, an Englishlanguage newspaper in Singapore that is widely read by Asia's business elite. By pictures of Lonsdale and Clougherty, the text continued, "Did undergrad have relationship with mentor or was she raped?"

In the months after the lawsuit was filed, Koo's father was pained and embarrassed, according to three people close to him. John Koo anxiously discussed with his son how the family might save face, the people said.

At the time, Brian Koo was seeking \$400 million in capital from his family and others in Asia for the special fund for Asian investments — an effort he was particularly passionate about. In meetings with prospective investors, Koo and his team were peppered with questions about the allegations against Lonsdale and about his continuing role at the firm, according to two people familiar with the matter.

When Formation 8 broke up that fall, Koo turned the fund for Asian companies into a new firm, Formation Group. Lonsdale set out to raise a separate fund for his new firm, 8VC, which says it is "dedicated to playing our part to help fix the world" through "ethical investing." In light of the early termination, Formation 8 gave back about 10% of the second fund's uninvested capital to investors, forgoing potentially millions of dollars in management fees.

Google Maps

Koo and Lonsdale's proposed Korean restaurant would occupy this vacant building in Palo Alto, which once housed Silicon Valley's first Apple store

Since the breakup, Lonsdale has <u>pointed to</u> the proposed Korean restaurant as evidence of his continuing bond with Koo, but even that project appears in doubt. A plan, central to Koo's vision, to build a roof deck with a bar has been challenged by Palo Alto officials. The project application was finally withdrawn in June,

with little explanation, city records show. Koo hasn't given up and plans to submit a modified application, probably without the roof deck, according to two people familiar with the matter. But he has already spent more than \$1 million on rent and other expenses, with little to show for it, two people close to him say.

In private discussions with friends, Koo has attributed Formation 8's breakup to friction with Lonsdale. While he and Lonsdale liked each other personally, he has told friends, they found they just weren't compatible as colleagues.

"Joe and I," he has said, "just married too fast."

Stanford model, 24, sues venture capitalist who was her college mentor - claiming he raped her up to ten times a day on trips to London and Rome

- Elise Clougherty, 24, dated Silicon Valley exec Joe Lonsdale for a year
- Lonsdale, 32, is co-founder of leading venture capital firm Formation 8
- Clougherty claims Lonsdale threw her against walls, forcibly raped her hundreds of times, and emotionally abused her, giving her PTSD
- She describes trips to London and Rome where she says he raped her
- He rejects the claims as a 'vicious campaign to destroy his reputation' and is counter-suing her
- Cloughtery is seeking \$75,000 in damages from Lonsdale and his firm Formation 8 for 'negligence', Lonsdale seeks \$150,000 in counterclaim

By Mia De Graaf For Dailymail.com

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Stanford alumna and Ford model has accused a Silicon Valley executive of raping her so many times she was left with post-traumatic stress disorder.

Elise Clougherty, 24, dated her college mentor Joseph Lonsdale, the 32-year-old co-founder of venture capital firm Formation 8, for a year between 2012 and 2013.

But in court papers filed on January 27, the graduate who has modeled for Vogue, describes 'a sexually, emotionally, and physically abusive relationship,' in which she was allegedly assaulted on a regular basis.

She claims Lonsdale deliberately deprived her of food, threw her against walls, and told her women need to be raped to learn respect. The ordeal, Clougherty says, left her suffering from posttraumatic stress disorder.

Lonsdale has dismissed the allegations as 'a vicious and vengeful campaign...to destroy his reputation with false and outrageous accusations.'

Rape claims: Former Ford model and Stanford graduate Elise Clougherty, 24, (left) has filed a lawsuit claiming her ex-boyfriend and college mentor, Silicon Valley executive Joseph Lonsdale, 32, raped her

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Soseph Lonsdale denies the claims.

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Rape claims: Former Ford model and Stanford graduate Elise Clougherty, 24, (left) has filed a lawsuit claiming her ex-boyfriend and college mentor, Silicon Valley executive Joseph Lonsdale, 32, (right) raped her

He has filed a counter-claim and set up a website with pictures of 'loving' emails from Clougherty that he claims show their intimacy was consensual.

The pair met in 2011 at a bar in New York when Clougherty was in her second year of study at the Northern California school, and Lonsdale had just set up Formation 8.

A year later, Lonsdale, himself a 2003 Stanford graduate, became Clougherty's official mentor in an entrepreneurship elective run by the university.

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They started dating and stayed together for a year.

According to Clougherty, who is seeking at least \$75,000 in damages, Lonsdale used his 'leverage' to ensure he would be her mentor in the entrepreneurship elective in February 2012.

That month, she claims, he invited her to his home in Los Altos, California, where he 'repeatedly forced [her] to have sexual contact without her consent.'

A month later, when Clougherty was on a vacation with her family in Spain, Lonsdale asked her to meet him in London and Rome, insisting they would stay in separate rooms, she says.

Ambition: Clougherty first met with Lonsdale to ask him about making it in the world of technology and data +8

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Ambition: Clougherty first met with Lonsdale to ask him about making it in the world of technology and data

Model: Clougherty, a data science major, modeled for the cover of hit young adult novel series Airhead

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Model: Clougherty, a data science major, modeled for the cover of hit young adult novel series Airhead

Traumatic': The former model, now studying at UVa, claims Lonsdale deprived her of food 'to manipulate' her +8

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'Traumatic': The former model, now studying at UVa, claims Lonsdale deprived her of food 'to manipulate' her

Damages: Clougherty is seeking \$75,000 in damages from Lonsdale and his firm for 'negligent supervision' +8

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Damages: Clougherty is seeking \$75,000 in damages from Lonsdale and his firm for 'negligent supervision'

When she arrived, however, he insisted that she stay in his room and 'forcefully raped' her throughout the trip.

Clougherty's suit, published by <u>TechCrunch</u>, demands damages from Lonsdale and his firm Formation 8, which she accuses of 'negligent supervision'.

It states: 'Throughout this period, Mr. Lonsdale repeatedly commented to Ms. Clougherty that women needed to be raped to learn to be loyal and that they really enjoyed being raped more than they let on.

'In addition to shaking her violently during sexual assaults, he also began strangling her, slapping her, scratching her, yanking her by the hair so hard that he would lift her torso off the bed, and slamming her body against the walls and bedboards.'

She added that he 'deprived her of both food and sleep by scheduling late evening and early morning activities, delaying meals, not ordering her enough food and other such tactics.'

And: 'He often would not let her buy tampons and seemed to relish getting her blood everywhere - on her clothing, bed sheets, hotel furniture, car and bus seats, and elsewhere.'

Clougherty described Lonsdale as using 'many forms of psychological manipulation and control on her, including but not limited to 'positive intermittent reinforcement,' 'gaslighting,' isolation, sleep deprivation, food deprivation, anger, embarrassment, and guilt.'

On her return, Cloughtery filed a complaint to the school, which supported her claim. Lonsdale has been banned from the Stanford campus for 10 years.

Hit back: Lonsdale, 32, has rejected the claims as 'a vicious campaign...to destroy his reputation'

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Hit back: Lonsdale, 32, has rejected the claims as 'a vicious campaign...to destroy his reputation'

Counterclaim: He also published emails from Clougherty that he said showed their relationship was consensual +8

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Counterclaim: He has published emails from Clougherty that he says show their relationship was consensual

In his <u>countersuit</u>, which demands \$150,000 in damages, Lonsdale says the relationship 'was always consensual'.

He says Clougherty initiated intimate contact, and that they 'took multiple vacations together, got to know each others' families' and 'developed a deep affection for one another'.

In addition, Lonsdale has published stockpiles of emails from Clougherty on a Wordpress site.

Denying the incident she described at his Los Altos home, Lonsdale said they shared their first kiss that night and she emailed to say 'I love getting to know you'.

He says their first sexual encounter was in Rome in March 2012, after which she described in an email as the 'day we shared such a beautfil moment together! If you know what I mean...'

A later message reads: 'The love I feel for you is deep.'

In another email, that spans 10 pages, Clougherty tells Lonsdale her 'perception was warped' when she met him, having just recovered from an eating disorder during which she was committed.

Clougherty is currently a Data Science graduate candidate at the University of Virginia.

Before Formation 8, Lonsdale founded Palantir Technologies in 2004.

• Picture of William Alden

William Alden is a business reporter for BuzzFeed News and is based in Los Angeles.

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Got a confidential tip? Submit it here.