The venture capitalists are from the same few schools, are males with similar appearances and only fund companies with senior staff from the same schools and with similar appearances and fraternity connections from wealthy families who own major industries. They put their offices on the same road: Sandhill Road. If you, or your team did not go to Stanford, it is not likely you will get funded by them.

They meet at Bucks restaurant in Woodside (now recorded by Iphone carrying entrepreneurs and posted on YouTube) and in conference rooms on Sandhill road and decide which companies to blockade and which companies to let through. Isn't that a monopoly? Isn't that against the law? These people should be prosecuted under the Sherman, FTC and RICO Acts!

So A Blogger Walks Into A Bar…

Michael Arrington

Tuesday, September 21st, 2010

Comments

Yesterday I was tipped off about a “secret meeting” between a group of “Super Angels” being held at Bin 38, a restaurant and bar in San Francisco. “Do not come, you will not be welcome,” I was told.

So I did what any self respecting blogger would do – I drove over to Bin 38, parked my car and walked in.

in the back of the restaurant in a private room was a long oval table. Sitting around the table, Godfather style, were ten or so of the highest profile angel investors in Silicon Valley. These investors, known as “super angels” because they have mostly moved on to launch small venture funds of their own, are all friends of mine. I knew each person in the room very, very well.

I certainly didn’t think anything was amiss and I expected a friendly hello and an invitation to sit down for a drink or two before being shooed off while they talked about whatever they thought should be kept off record. But instead it went something like this:

Me: Hey!

Person who was talking: oh, oh no.

Me: Hi. I heard you guys were here and I wanted to stop by and say hi.

Them: dead silence.

Me: so….

Them: Deafening silence.

Me: This is usually where you guys say “sit down, have a drink.”

Them: not one sound

Me: This is awkward. I guess I’ll be leaving now.

I’ve never seen a more guilty looking group of people. But that alone isn’t that big of a deal. Lively conversations often die quickly when I arrive, and I've learned not to take it personally. But I did sniff around a little afterwards, and have spoken to three people who were at that meeting. And that's where things got interesting.

This group of investors, which together account for nearly 100% of early stage startup deals in Silicon Valley, have been meeting regularly to compare notes. Early on it was mostly to complain about a variety of things. But the conversation has evolved to the point where these super angels are actually colluding (and I don't use that word lightly) to solve a number of problems, say multiple sources who are part of the group and were at the dinner. According to these souces, the ongoing agenda includes:

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Complaints about Y Combinator's growing power, and how to
counteract competitiveness in Y Combinator deals

Complaints about rising deal valuations and they can act as a
group to reduce those valuations

How the group can act together to keep traditional venture
capitalists out of deals entirely

How the group can act together to keep out new angel investors
invading the market and driving up valuations.

More mundane things, like agreeing as a group not to accept
convertible notes in deals (an entrepreneur-friendly type of
deal).

One source has also said that there is a wiki of some sort that
the group has that explicitly talks about how the group should
act as one to keep deal valuations down.
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At least two people attending were extremely uneasy about the meetings, and have said that they are only there to gather information, not participate.

So what's wrong with this?

Collusion and price fixing, that's what. It is absolutely unlawful for competitors to act together to keep other competitors out of the market, or to discuss ways to keep prices under control. And that appears to be exactly what this group is doing.

This isn't minor league stuff. We're talking about federal crimes and civil prosecutions if in fact that's what they're doing. I had a quick call with an attorney this morning, and he confirmed that these types of meetings are exactly what these laws were designed to prevent.

I'm not going to say who was at the meeting since at least a couple of the attendees are saying they were extremely uncomfortable with the direction the conversation was going. But like I said, it included just about every major angel investor in Silicon Valley.

On a side note, this is a difficult post to write, because I call nearly every person in that room a friend. But these actions are so completely inappropriate it has to be called out.

Not sure what your sources are, but courts have ruled that parallel action can be sufficient evidence of conspiracy under Section 2 of the Sherman Act. See e.g. American Tobacco v. United States (1946), available here:

http://supreme.vlex.com/vid/american-tobacco-v-united-states...

The Supreme Court wrote:

"[The conspiracy's] existence was established, not through the presentation of a formal written agreement, but through the evidence of widespread and effective conduct on the part of petitioners in relation to their existing or potential competitors."

If I remember correctly from my anti-trust class last year, the American Tobacco precedent still stands. You don't need written or audio evidence to get a conviction; anti-competitive behavior in the marketplace is sufficient.

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dandelany 774 days ago | link

Interesting questions... IANAL, but I imagine they're colluding to bring down the valuations of startups, therefore essentially fixing the "price" of their money, to be paid for in startup equity.

If I, and others, say your company is worth a million dollars, then I'm fixing the price of my $500,000 at 50% of your company.

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brendonjason 774 days ago | link

IANAL(E), but this scenario would seem to be more of a concern if startups in Silicon valley got together over dinner to deny deals that didn't offer similar terms and prices in dollars for securities of all startups represented at said dinner simultaneously.

As for angels fixing the "price of their money" I don't understand how antitrust applies to this anymore than it would to, say, how LIBOR is determined.

If antitrust applies to colluding on the dollar amount to be paid OUT instead of price asked for money coming in, then if I start a boycott of something (colluding to pay $0) am I guilty of violating antitrust laws?

As I understand it (not much, I admit), antitrust applies to goods and services, not cost of money. If antitrust applied to cost of money, the Federal Reserve would not exist since it's basically an extension of the member banks that make up its institutional board of directors (not board of governers). All they do is get together and fix the price of money to be printed and lent out to member banks.

Also, this whole "I stumbled in on a secret meeting of powerful men conspiring to start a revolution" thing is somewhat suspect; throughout history this gambit, if it actually happened that way, is usually either desperate grab at 15 minutes of fame (which seems unlikely given Michael's popularity), an attempt to gain instant credibility on some esoteric but useful new subject ("I was the only outsider privvy to what happened there, so you can trust me") or, unfortunately, a cynical move feigned by the men in the room to inspire hasty and possibly faulty reactionary stances by the supposed target of their "envy".

I could be wrong though. I just can't believe guys who are careful enough to get to such a position in life would all simultaneously get so careless. On the same day. In the same place.

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polynomial 773 days ago | link

> if I start a boycott of something (colluding to pay $0)

http://j.mp/dividedby0

(Unless of course you actually get them to give it to you for nothing, which is generally not the point of a boycott...)

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jeromec 774 days ago | link

Think of the stock market. That's certainly a marketplace. It's made up of investors seeking to earn a return on their money by investing in companies. Think of the illegalities involved in collusion to manipulate the stock market. Now think of Silicon Valley as a less formal/regulated stock market...

With Groupon nobody is asked to not buy or otherwise participate in the market unless done through Groupon. Instead, it's like a grocery store co-op; members pool their money to get more buying power. This doesn't mean they agree to refrain from shopping elsewhere, as that would be collusion/conspiring to produce a market effect. IANAL

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brendonjason 774 days ago | link

If I have an investing club and we come to define an investment approach, say, what stocks we like and what we think they should be valued at, are we colluding to price fix the market? If I think a company is over priced and I am in charge of executing trades for my investing club, whose members unanimously agreed not to buy the stock in question until it fell down say, $20 more in price - are we colluding? Yes. Colluding to price fix? No. We're simply colluding not to participate in the buy side. That may or may not lead to sellers slowly changing their asking price. But that's a two-way street. I don't see the illegality according to anti-trust. Now if every major instutional house/hedge/mutual/pension fund that owned that stock got together and colluded to refuse to SELL us any stock until we agreed to their higher price, that I understand is illegal. They are fixing the price literally. But I don't see how us refusing to participate in a transaction on the buy side is illegal whether we have 5 members or 5 million.

Saying that the angels are colluding to price fix buys into Michael's assertion that "together, the men in that room account for nearly 100% of all angel deals". That means that their "deals" are the commodity in question, and they are free to do as they wish. If it's their money, then it's hard to make the claim that their money is the market. There's certainly more money in the world than theirs.

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blueben 774 days ago | link

"Look, you and I both know your company is worth $50 million. But I only want to pay $10 million, and I've already worked out a deal with my competitors so they won't bid any more than that either. We own the market for investment, so you can take it or your company can die for lack of funding."

You don't see a problem with this kind of artificial market manipulation? This is no longer a market; it short circuits true capitalism and only serves to siphon gains from the seller (in this case, the company's founders) to the buyer, who will turn around and effectively try to resell (or otherwise exit) the company for profit.

Everyone seems to be convinced that price fixing only applies to sellers. That's wrong. It firmly applies to both selling and buying. It's fundamentally about market manipulation; taking steps to undermine the economy of the system for direct personal gain. That kind of behavior destroys wealth and erodes confidence in the marketplace.

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aufreak3 774 days ago | link

I'm ignorant enough to have the same question in my mind.

SkyMarshal 774 days ago | link

Grellas, what's your take on this Quora comment? In a nutshell, it's not illegal for collusion on the buy side, only the sell side:

Tarun Nimmagadda, Mutual Mobile Co-Founder, COO

http://www.quora.com/Who-are-the-Super-Angels-that-Michael-A...

"The article was a fun read, but it is a false claim that this is illegal. Collusion, price fixing, and dividing markets is only illegal on the selling side. Think about how people and groups are able to band together for purchasing power and special treatment when buying goods/services. Its not illegal.

Worth noting thought that if this price manipulation happened in relation to a company with over a 100 investors, SEC regulations would begin to apply and this behavior would be illegal"

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grellas 774 days ago | link

That comment was made out of ignorance. Antitrust laws are by no means limited to sellers only.

SkyMarshal 774 days ago | link

Interesting, thanks.

Alex3917 774 days ago | link

"Collusion, price fixing, and dividing markets is only illegal on the selling side."

IANAL, but didn't Standard Oil got broken up largely for being a monopsony? In fact the first two complaints from the DoJ were about sell-side issues:

"Rebates, preferences, and other discriminatory practices in favor of the combination by railroad companies; restraint and monopolization by control of pipe lines, and unfair practices against competing pipe lines; contracts with competitors in restraint of trade; unfair methods of competition, such as local price cutting at the points where necessary to suppress competition; [and] espionage of the business of competitors, the operation of bogus independent companies, and payment of rebates on oil, with the like intent."

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invisible 774 days ago | link

I know this was pointed at grellas, but I think this is a misunderstanding when we look at price fixing and collusion. The illegality of collusion is secretly forming agreements to benefit competitors at the expense of other parties. Words like defraud can succinctly help you understand whether it is illegal or not when looking at these agreements.

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dctoedt 774 days ago | link

The Wikipedia summary of Section 1 of the Sherman Act is a decent read: http://en.wikipedia.org/wiki/Sherman_Antitrust_Act#Violation...

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jon_dahl 774 days ago | link

Grellas, would there have to be evidence that the participants were acting anti-competitively, or is being in the room enough? Arrington says that a few of the folks there were uncomfortable with what was going on, and were maybe there just to see what was happening.

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grellas 774 days ago | link

Assuming the meeting had an illegal purpose (which is a major assumption at this point), one might infer that anyone present was complicit in that illegal purpose. In my view, that by itself would not normally be enough to subject someone to liability, especially if the participant disclaims affiliation with the group and thereafter does not act in concert with it.

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guelo 774 days ago | link

Does it matter if the participants have monopoly power over the market? I have a hard time believing Arrington's claim that "ten or so" angels control "nearly 100% of early stage startup deals in Silicon Valley". If they control lets say only 50% of this market would it still be illegal collusion?

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grellas 774 days ago | link

It is not required that the participants have monopoly power for them to transgress the law on this point. I agree with you that the "nearly 100% of the early stage deals in Silicon Valley" statement is wildly overstated but this should not affect the fundamental legal analysis here.

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messel 774 days ago | link

The only observation I've read is that several angels in a bar didn't want to talk to Mike Arrington about why they were meeting. New fund, maybe. Shared problems about Silicon Valley deal flow and seed price inflation, likely.

Collusion is a bit of a jump, and suggests far more market power than a roomful of angels can have over state, regional, national, or global startup macro pricing trends.

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tc 774 days ago | link

Congratulations to PG & company. When I first met Paul years ago, he was musing about spam filters and the finer points of a well-designed lisp. Now he apparently has the top 10 angels in Silicon Valley running scared of him.

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jeromec 774 days ago | link

The interesting thing is unlike that group of Angels apparently in the bar PG's interests are less about helping himself, and more about helping entrepreneurs. From an essay by PG entitled "Why YC":

The real reason we started Y Combinator is one probably only a hacker would understand. We did it because it seems such a great hack. There are thousands of smart people who could start companies and don't, and with a relatively small amount of force applied at just the right place, we can spring on the world a stream of new startups that might otherwise not have existed.

In a way this is virtuous, because I think startups are a good thing. But really what motivates us is the completely amoral desire that would motivate any hacker who looked at some complex device and realized that with a tiny tweak he could make it run more efficiently. In this case, the device is the world's economy, which fortunately happens to be open source.

http://paulgraham.com/whyyc.html

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wensing 774 days ago | link

YC's greatest hack is identifying founder material based on technical rather than social proof (the YC app asks for an example of the coolest thing you've ever built, not an example of a cool person that thinks you are cool). This hack is possible thanks to a judges panel full of real nerds. How many super angels or VC's can claim to have the same?

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gruseom 774 days ago | link

I agree that YC are able to identify great hackers and great founders more easily because they are these things themselves.

What's little recognized is how big a difference this is between YC and the other YC-like funds.

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wensing 774 days ago | link

Yes. I had a colleague apply for TechStars and her takeaway from the interview was "he was really focused on where the business was." Doesn't seem in line with what I've heard about YC's primary interest (it's not the business model).

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gruseom 774 days ago | link

It seems kind of obvious that most successful startups don't succeed via the business model they started with. And that great founders can change business models more easily than great business models can change founders. These things are so obvious that they're cliches, in fact, but that doesn't mean that they're common practice.

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qq66 774 days ago | link

I don't think anybody's stated interests should be taken as an indicator of their true interests. In this case, with PG, I do believe that his stated intentions are sincere. But there is often so little correlation between actual and stated intentions, that I don't take any such statement at face value.

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jeromec 774 days ago | link

I don't think anybody's stated interests should be taken as an indicator of their true interests.

I agree. (actually I'd replace "taken as an indicator" with "taken as an absolute indicator")

In this case, with PG, I do believe that his stated intentions are sincere.

I agree.

---

mhendrick 774 days ago | link

Correct me if I'm wrong, but isn't it likely that the angels involved also make up a strong percentage of the people who invest on Demo Day in post-YC companies? How can it be a "PG vs Angels" situation when the parties involved are likely some of YC's portfolio companies biggest "supporters"?

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brc 774 days ago | link

One of the outputs from the YC process is better educated founders who have a lot more guidance in negotiating through a deal.

Even if the deal flow was exactly the same, just having the founders suffering less from information assymetry would be a stone in the shoe of the Angels.

Think of it this way : if YC did all the same things, but also turned founders into being Angel patsies at dealtime, do you think they would be upset about it? I would guess it's the information about how to negotiate, and what a good deal looks like is the problem. I'm sure they love the concept of demo-day to go deal shopping, but would prefer it if the products didn't talk back.

MediaSquirrel 774 days ago | link

YC is the seller, angels at Demo Day are the buyers. Just cuz you work with someone closely doesn't mean you won't or can't try to screw them.

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redrobot5050 774 days ago | link

Yeah. I mean, look at the JooJoo/CrunchPad Debacle. According the Mike A., that's exactly what happened.

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mhendrick 774 days ago | link

Agreed. It's possible they got a bit overconfident in their respective positions because of the easy access to so many well-vetted companies.

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jeromec 774 days ago | link

Correct me if I'm wrong, but isn't it likely that the angels involved also make up a strong percentage of the people who invest on Demo Day in post-YC companies?

Yes, I believe so.

How can it be a "PG vs Angels" situation when the parties involved are likely some of YC's portfolio companies biggest "supporters"?

That question might be better put to those Angels in the bar...

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mhendrick 774 days ago | link

I'm not defending the angels involved by any means; I actually think it's a great thing that this has been exposed if it is indeed what's been going on. The easy access to YC companies may in fact be what emboldened them to act in this manner in the first place. Once this all plays out, I think it's safe to assume that at least a few of the angels in question are going to have to answer for their actions. Should be interesting to hear what they have to say.

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brendonjason 774 days ago | link

Yes. They are running scared of the growing threat of the Ylluminati. But since they have 100% of all the deals, they also seem to co-invest(?!?).

These anxious (yet all-powerful) group of angels and this unstoppable new seed-stage prominence. They form a closed loop. A loop closed off to venture capitalists and angels not at that meeting ... which is basically everybody.

Except Michael. He got away with his life intact and lived to warn us all.

Actually, I don't know what's scarier - the supposed collusion or the subtle dread that Y Combinator is supposed to evoke in my mind as I ponder the possibility of this event being true.

If it is true - maybe we should be side with these poor angels and help them before it's too late.

To paraphrase Woodrow Wilson, "Since I entered (angel investing), I have chiefly had (angel investor's) views confided to me privately. Some of the biggest men in the (Valley), in the Field of (IT) and (Venture Capital), are afraid of something. They know that there is a power somewhere so organized, so subtle, so watchful, so interlocked, so complete, so pervasive, that they better not speak above their breath when they speak in condemnation of it."

That something ... is Y Combinator.

Um ... no. The dark side doesn't suit you, Y Combinator.

Please stop.

I'm sorry. Maybe I've had too many beers tonight. But this is the kind of scenario that only comes out of the mind of a silicon valley PR firm.

(please don't downvote me too much ... I'd like to get above 100 karma points just once for a change! Noooo!)

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limist 774 days ago | link

I upvoted you just for the historical reference. :)

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mixmax 774 days ago | link

So a blogger gets a tip from a source, knows the people involved, acts on it and smells a rat. He sticks around and talks to a few people he knows, makes a few calls and gets a breaking story.

Sounds to me like bloggers are the new journalists and that traditional media is in big big trouble.

---

sachinag 774 days ago | link

Felix Salmon does this, and he's a blogger working for Reuters. Dan Primack does this, and he's a blogger working for Fortune.

It's not about old/new media - it's about hustle.

Alex3917 774 days ago | link

Read Manufacturing Consent or any of the books that have been written about the MSM since then. It's very much about old media verse new media.

If this were the NYT they'd probably tell Arrington he couldn't run the story because it'd interfere with either their ad sales or else their access to sources. For example, just look at how/why they covered up their knowledge of the warrantless wiretapping until after Bush got reelected.

Whereas with Arrington there's no one to tell him he can't do it because it's his blog, and because he's not part of some mega corporation the chances of a story like this killing the revenue of some part of his empire are infinitely lower.

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metamemetics 774 days ago | link

> Sounds to me like bloggers are the new journalists

Journalism used to be considered the fourth branch of government, keeping the other branches and large institutions in check. Blogs are the startups of the journalism world.

As America moves from bureaucratic capitalism with large institutions to entrepreneurial capitalism with many small firms & independent players, the responsibility to call out unethical behavior is transferred from news companies to the individual.

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vaksel 774 days ago | link

a breaking story would name names...him not naming names just means he can use this as a hammer to get better terms for Techcrunch(either I get exclusive to every deal you guys do...or your names will be posted)

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metamemetics 774 days ago | link

I would argue it's more ethical to discourage and prevent crime from ever happening in the first place. Seeking satisfaction from "catching the bad guy" (naming names) is to setup a market dependent on the need for new crimes.

Arrington did the right thing. It's not about whether he caught a criminal, it's about whether he prevented someone from becoming one.

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eavc 773 days ago | link

Someone (maybe everyone) in that group knew what they were doing to be wrong.

I doubt that they will abandon their ethical choice; they'll find smarter ways to do what they'd intended all along.

One thing that might work is if someone in the group has damning correspondence, everyone will panic and promise to "never talk about that summer again," genuinely preventing future problems.

---

jon_dahl 774 days ago | link

Maybe. This approach shows some integrity too, though. Not everything has to turn into a scandal (at least if inappropriate behavior stops quickly). Call me soft on crime.

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mattmaroon 774 days ago | link

Him not naming names means that people will continue to give him information in the future. He'd be shooting himself in the foot by naming a source that requested anonymity.

SkyMarshal 774 days ago | link

There's an interesting conundrum there too. He can't name names without either omitting (and hence identifying) his source/s, or including (and inditing) them.

Either way he loses that/those source/s for future stories. He did the only thing he could do, besides staying silent. If it happened to be the right thing as well, so much the better.

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drusenko 774 days ago | link

unlikely. business in the valley is not done by extortion.

more likely is that he doesn't want anyone to get in trouble, he's just putting them on notice.

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jnoller 774 days ago | link

I do hope he's wrong, or that this a mistake of some sort. The rise of Angel investors has seen a lot of ideas and entrepreneurs get needed money when they might not have under the traditional VC model.

Something like this, if true, will cause the government to step in, and probably regulate and change things for the worse for a great many people. It won't just hurt these few super angels. It will take everyone with it.

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j_baker 774 days ago | link

To be fair, this is Michael Arrington. He's not above sensationalism to get a few extra clicks.

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mattmaroon 774 days ago | link

This goes well beyond sensationalism. I'm inclined to believe him for three reasons:

1. Mike's not known for boldly lying. He might publish rumors that Facebook is building a phone too liberally, but I've not heard of him saying "I saw x happen" and it wasn't true. Assuming the account of what he himself saw was accurate it's hard to imagine collusion wouldn't be the purpose.

2. This sounds like something that would happen. VCs do this crap all the time, why not angels?

3. Publishing this might be bad for him, and if it were untrue, it would definitely be really bad for him.

---

cletus 774 days ago | link

I believe it too. You succinctly enumerate the reasons. The biggest for me was that (he claims) he saw it happen. That puts his personal reputation at stake, which I think will have to meet a far higher standard than the rumour publishing "go tos" of "an anonymous source".

The FB phone was (imho) classic Arrington (the bad side). Posted on the weekend (in the hopes that FB PR would be slow to respond and debunk it), quoting anonymous sources and no substance at all. Basically, link bait. That sort of story does him (or rather his credibility) no favours.

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swombat 774 days ago | link

Add to that that there is no convincing reasons why this group of angels would manufacture this story to lead him on. Unlike with some other TC stories which turned out to be manufactured to discredit TC, in this one, the sources themselves would risk a lot by leaking this - true or false.

Alex3917 774 days ago | link

In Arrington's defense his claims are laid out clearly without any weasel words. Either this is happening or it isn't. So while I'm pretty meh about TC as a whole, I'm giving him the benefit of the doubt on this one.

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chc 774 days ago | link

He didn't name a single name. If he really believed this was so certain, he could have. Unless he's trying to make them do something, the only reason to keep names out of it is because he thinks this might be libel.

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swombat 774 days ago | link

He doesn't need to expose himself to lawsuits by naming names. The names are pretty obvious to anyone in the field.

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chc 774 days ago | link

Yes, but that's the thing — you can't get sued for "obvious names." Even if he's completely making this up, if one of the obvious suspects sues him, he can just say, "Oh, no, I didn't mean him."

The comment I was replying to said, "his claims are laid out clearly without any weasel words. Either this is happening or it isn't." I disagree with that — Arrington is not laying it all out here as a black-and-white truth. He's consciously omitting facts in a way that happens to shield him from repercussions if this is false. As a traditional dead-tree newspaper guy, I'm very familiar with the ways reporters fudge their claims to avoid being responsible if it turns out to be crap. That's what this sounds like to me.

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eavc 773 days ago | link

If he calls them felons and they wind up being acquitted for whatever reason, however technical or stupid, then he would be liable for libel.

He clearly wanted to avoid using weasel words. The only way to do that without being reckless is to not refer directly to the objects of the post.

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techiferous 774 days ago | link

"the only reason"

He did mention that they were his friends. Perhaps he wants to nip the illegal activity in the bud with as little collateral damage as possible.

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jnoller 774 days ago | link

I'm not going to disagree with that. As I said, I hope this is a mistake.

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origoterra 774 days ago | link

Arrington is smart, a lawyer himself, and already know he is headed straight to the witness stand. Thanks for blowing this whistle Mike. That's the TC we like.

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seldo 774 days ago | link

I don't know if witnessing a table full of people go silent when he turns up proves anything, and the rest is all info that would put his source on the stand, not him.

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danielnicollet 774 days ago | link

If you read the full post, take in account that he was present and saw who was there, and assume he has not chosen to reveal everything about the sources through TC at this time (that's highly understandable - protecting his sources and only disclosing what he feels is verifiable), there is definitely a lot here and absolutely enough for a climb to the witness stand!

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tomjen3 774 days ago | link

I am not so sure - he said that several of the persons there were very uncomfortable with the deal, so being there alone would not be enough.

The rest is heresay, which is admissible in no non-kangaroo court that I know of.

MediaSquirrel 774 days ago | link

I believe the saying that applies is: "Power corrupts..."

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cool-RR 774 days ago | link

I wouldn't take anything he says seriously. [Edit: If it wasn't clear, I meant Arrington, not Jesse]

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lsternlicht 774 days ago | link

I think your statement was clear. However, I find it hard to believe Arrington would put some of his best sources at risk if his claims were completely unfounded.

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onan_barbarian 774 days ago | link

Strange how any post that could be construed as being negative about Arrington gets down-modded by about 5 points, regular as clockwork.

That being said, I think he's on the money with this one.

This can only be good for YC overall. The suspicion that YC alternatives are all colluding against your startup is likely to make YC seem more attractive still, to the class of startup that would be wavering between YC and a rival.

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stanleydrew 774 days ago | link

Posts that consist of nothing more than subjective statements tend to get a lot of downvotes, not just the ones about Arrington.

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ori_b 774 days ago | link

The reason it's always exactly 4 points of downvote is because hn caps the visible downvotes at 4, not because there are 4 shills.

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ericd 774 days ago | link

Super angels aren't really an alternative to YC... they normally step in at the stage a company is at where YC normally ends.

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gruseom 774 days ago | link

I find it fascinating how the very qualities that lead people to call Michael Arrington an asshole are dramatically in evidence here. It takes a staggering immunity to social mores to walk in on a meeting of rich and powerful friends, friends who are connected to his own business in many ways (read: friends with leverage) and behave the way MA says he did, let alone go home and write that article. Very few people could do it. I'm not sure I could, to put it mildly. I particularly doubt if many (any) of Arrington's competitors ever would. It may take a character disorder to be able to act this way.

In an age when journalists grade themselves by which power-brokers deign to have lunch with them (anybody see David Brooks prattling about this on Charlie Rose the other night? lunch and dinner, he said) it's impressive to see anyone act like this. Especially if what he's saying is true and this really is a matter of right and wrong.

---

mrtron 774 days ago | link

I have always felt MA had a certain...brashness, abrasiveness, assholish tone, whatever you want to call it... about him. You could feel it in his articles.

I now feel it is not only helpful but entirely necessary for him to develop that quality in his career path.

Kudos for pushing the boundaries Mr. Arrington. The evidence speaks for itself - you don't see this type of journalism in any industry anymore.

---

jexe 774 days ago | link

Well, at least one investor seems to have accidentally included himself in the mess (from TC's comments)

http://twitter.com/speechu/status/25083299594

---

jakevoytko 774 days ago | link

This link is now a 404. Thankfully Google has the text of the tweet!

speechu: Bin 38 is like heaven right now, chock-full of angels.

Not explicitly incriminating, but it sounds pretty bad

---

dzlobin 774 days ago | link

Strangely, it's still on the feed. http://twitter.com/speechu

But the status link is deleted

---

borism 774 days ago | link

real-time wonders of nosql?

---

nostromo 774 days ago | link

I just put "forming a cartel" on my list of things not to tweet.

---

mattmaroon 774 days ago | link

Unless you're in Mexico. Then Tweeting is probably a good idea.

---

mrduncan 774 days ago | link

The original tweet was removed in the past few minutes (others have dug it up again). His latest tweet doesn't seem to be taking Arrington too seriously:

Thanks Mike for techcrunching me for no reason. Note to self: hold next secret meeting in underground bunker to get the feds off my trail.

http://twitter.com/speechu/status/25174604517

---

dannyr 774 days ago | link

The tweet has been erased but somebody did an old-school retweet of it.

"Timestamp is 8p yesterday. RT @speechu: Bin 38 is like heaven right now, chock-full of angels. #superevil #evidence cc @arrington"

http://twitter.com/mattmireles/status/25159683448

---

hanskuder 774 days ago | link

Tweet's now deleted. That's not suspicious at all.

---

joshu 774 days ago | link

i've never heard of this guy before, and he isn't a coinvestor on any deal i've been on...

---

bl4k 774 days ago | link

he works with Aydin at Felicis

---

ojbyrne 774 days ago | link

If I had some energy (and cared) I'd be on foursquare and gowalla right now ;-)

---

pbiggar 774 days ago | link

It's 404 for me. What did it say? (screenshot preferred)

---

dannyr 774 days ago | link

Cached version:

http://cc.bingj.com/cache.aspx?q=http://twitter.com/speechu/...

---

tptacek 774 days ago | link

In what sense do antitrust laws apply to investors? Why is it unlawful for investors to band together to get better terms for themselves?

Wouldn't it be perfectly legal for these people to sit around a table an agree to merge and start a fund? If that's the case, how could it be unlawful for them to work on a joint venture? Just because I don't like the JV doesn't make it unlawful!

---

danilocampos 774 days ago | link

IANAL, but as I understand it...

Any time individuals or businesses get together to collaborate on a strategy that restrains trade or supply, thus artificially skewing prices, this runs afoul of antitrust law.

Collusion between angels to keep valuations low and prevent newcomers from participating sounds like a textbook case. In this case, they're artificially inflating their cost of capital by reducing the overall valuations of the businesses they fund. They artificially reduce the supply of capital by conspiring to keep out new participants.

Similarly, the Department of Justice is looking into Valley hiring, since companies have a gentlemen's agreement not to poach from one another:

http://www.forbes.com/feeds/ap/2010/09/17/technology-special...

In this case, the argument would go that the companies are artificially constraining the supply of paying work for qualified applicants, while reducing the competitive landscape that would drive up their salaries.

---

nostromo 774 days ago | link

It sounds like price fixing, even though they are buying and not selling. Check out Wikipedia for a good write-up:

"Price fixing is an agreement between participants on the same side in a market to buy or sell a product, service, or commodity only at a fixed price, or maintain the market conditions such that the price is maintained at a given level by controlling supply and demand. The group of market makers involved in price fixing is sometimes referred to as a cartel.

The intent of price fixing may be to push the price of a product as high as possible, leading to profits for all sellers, but it may also have the goal to fix, peg, discount, or stabilize prices. The defining characteristic of price fixing is any agreement regarding price, whether expressed or implied.

...

Colluding on price amongst competitors is viewed as a per se violation of the Sherman Act regardless of the market impact."

---

tptacek 774 days ago | link

Would it still be price fixing if all of them got up from the table and announced the formation of Super Angel Capital Partners? I can't see how; there's tons of VC firms already. If that's not unlawful, how is a joint venture among them unlawful?

Are we just stuck on the fact that they're "angel investors"? The law doesn't recognize any such sector of the venture capital business.

---

j_baker 774 days ago | link

"Would it still be price fixing if all of them got up from the table and announced the formation of Super Angel Capital Partners?"

Yes. That would effectively make SACP a cartel. Price fixing is price fixing if it was done by a group of entities or one entity.

InclinedPlane 774 days ago | link

If they create a single super angel corporation then they could run afoul of anti-monopoly laws.

---

tptacek 774 days ago | link

What? No they don't. There's no such thing as a "monopoly of angel investors". There are as many angel investors as there are people with extra money to invest. In a lot of cases already, groups of powerful people with extra money to invest have already formed very famous companies to do exactly what we're talking about!

Shouldn't the DoJ be going after Kleiner and Sequoia first?

Don't hundreds of doctors and dentists already do stuff like this?

---

enneff 774 days ago | link

Hah, this made me laugh. As if they owe anybody anything! They're the ones taking the risks with their own money; if they want to be better informed through information sharing, more power to them.

---

j_baker 774 days ago | link

"As if they owe anybody anything! They're the ones taking the risks with their own money;"

Right. And I'm sure they're all doing it out of the kindness of their hearts. They're definitely not intending to make money off of the deal.

Regardless, Arrington accuses them of discussing:

- How the group can act together to keep traditional venture capitalists out of deals entirely
- How the group can act together to keep out new angel investors invading the market and driving up valuations.

This is definitely sounds anti-competitive to me (assuming it's true of course).

---

prostoalex 774 days ago | link

My buddy and I in college colluded to maintain market conditions on Lamborghini prices. As far as I can say, 300 million other Americans are participating in this. Our agreement was specifically regarding price (and lack of 0% financing).

I think in buyer's market it only makes sense when the supply of buyers is artificially limited. Not only it doesn't look like there's any shortage of capital, the conversation in question specifically discussed excluding new angel investors, furthering the point.

---

ctkrohn 774 days ago | link

If the FTC determines that the joint venture would form a monopoly, they could in fact block it on antitrust grounds. The FTC blocks mergers all the time.

Explicit cooperation in restraint of trade is always illegal, though.

---

icey 774 days ago | link

According to Wikipedia [1], there were over 250,000 angel investors active in 2007. If 10 of those investors were to get together to form a "super-group", I'm not sure it would match up with the definition of a monopoly.

I don't know anything about the collusion arguments though.

[1] http://en.wikipedia.org/wiki/Angel_investor

---

ctkrohn 774 days ago | link

I agree. Not saying they're a monopoly. The merger-blocking issue is the only reason I can think of for a joint venture being illegal.

The difference is that explicit collusion is ALWAYS illegal. Otherwise innocuous activities that may have an anticompetitive effect (e.g. forming a joint venture) are sometimes legal, depending on what the FTC thinks.

---

jon_dahl 774 days ago | link

The real question would be their investment market share, right? There might be 500 companies building operating systems, but a Microsoft/Apple merger would probably be a monopoly concern.

That said, while their market share is certainly larger than 10/250,000, it probably doesn't even approach 10%. So you're probably right.

---

jessriedel 774 days ago | link

True, but you need to consider possible sub-markets. They might have much less than 10% of angel funding nationwide, but 60% of tech angel funding in the bay area. Or something like that. It all depends on how the regulators draw boundaries around markets.

---

dschobel 774 days ago | link

Why would VC firms meeting and agreeing to change terms for their clients in lock-step not be collusion whereas if the brick and mortar banks did, it would be? (and was: http://redtape.msnbc.com/2008/04/did-banks-collu.html)

---

j_baker 774 days ago | link

It turns out that banks are exempt from antitrust laws: http://en.wikipedia.org/wiki/United_States_antitrust_law#Exe...

---

dschobel 774 days ago | link

You're referring to the Edge Act [1][2] and that only applies to US banks' foreign operations (their subsidiaries, to be specific).

It is still very much illegal for them to collude against US customers.

[1] http://en.wikipedia.org/wiki/Edge_Act

[2] http://www.answers.com/topic/edge-act-corporation

---

pvg 774 days ago | link

I have no idea whether this specific arrangement is legal or falls under laws regulating price fixing but it is fundamentally different from a JV - there is transparency in the case of a JV so someone looking for financing knows they are dealing with the same entity. If it was the same thing as a JV, parties doing the collusion wouldn't bother to do it in secret.

InclinedPlane 774 days ago | link

Buying stock is also just investing. So is providing a loan. That doesn't mean those activities aren't subject to laws and regulations.

---

navyrain 774 days ago | link

I cannot speak to the letter of the law, but I'd venture to say the alleged misbehavior violates at least the *spirit* of the law, since these angels would be considered competitors outside of that room.

---

jnoller 774 days ago | link

I'd like to know the laws too, this could be construed as collusion, conspiracy and probably a few other things.

---

tptacek 774 days ago | link

How? What market power are they exploiting? There's no conceivable monopsony for "shares of all startups".

---

jnoller 774 days ago | link

They are a group of people supposedly conspiring to generate the worst possible terms for the people they are providing money to, while trying to force out or marginalize competition.

IANAL though - even if not illegal, it's still pretty stinky, and a big part of me hopes it's not illegal. If it's not illegal, I hope they're outed and shamed if this is true. If it is illegal, it give the government reason to step in and screw everything up.

---

tptacek 774 days ago | link

Or, this is a group of people collaborating to generate the best possible outcome for their own business. Every joint venture can be framed in anticompetitive terms. But in this case, what possible undue market influence can they have? The market will find other people to take these deals.

---

jnoller 774 days ago | link

This is a group of people, comprising the top angel investors in a given area, investing lots of money, into a lot of companies, supposedly discussing - in private - how to "divide the market" and "set prices" and "exclude/marginalize competition". Angel investors, despite being individuals, still have regulations and laws to follow.

Frankly, I think the feds would jump at the chance to have an excuse to jump in and more tightly regulate/tax/etc the entire system, including angel investors.

You could very well be right; admittedly, I'm not the smartest tool in the shed when it comes to understanding FTC and government investment regulations, as well as the legal status of angel investors.

Heck, I really hope this is all wrong, because the last thing I want is the feds meddling in this industry even more. I make my living on startups; the last thing I want is the federal government to make it wither and die.

---

j_baker 774 days ago | link

"Every joint venture can be framed in anticompetitive terms."

Semantically yes. But is every joint deal bad for the market?

"The market will find other people to take these deals."

Don't be naive. Anticompetitive practices are specifically meant to prevent the market from functioning normally.

---

dschobel 774 days ago | link

That's an unrealistically high standard and I can't think of any recent case which would meet it. Why didn't the market find a solution to Microsoft in the 90's or Intel in 2000's and, more importantly, why did the Feds feel the need to intervene?

---

tptacek 774 days ago | link

Microsoft owned the entire personal computing platform and was using it to put new companies in marginally related markets out of business.

Are you suggesting that 10 angel investors have control over all the money? Is one of them Lex Luthor?

---

blueben 774 days ago | link

Because bay area technical angel investing isn't just about writing cheques. It's about managing and guiding those startups, helping them find the resources they need. It's about leveraging your connections throughout the industry to help them grow sales, build manufacturing, hire talent, or any of a hundred other things. This is why startups go back to these handful of investors over and over again. Founders aren't stupid. They know these investors wield serious power in the tech world, and they want that power to be on their side.

If you think the only requirement to being an angel investor is having a big bank account, you haven't been paying attention.

---

dschobel 774 days ago | link

I'm not suggesting it, Arrington flat out said it. He was there and knows the VC players better than anyone.

---

notahacker 774 days ago | link

If (i)most angel investors are significantly less likely to make investments in early stage tech startups at a given price and/or (ii)due to connections these investors provide a significant non-monetary value-add to the startups they invest in then it's conceivable they might wield a significant amount of market power.

---

inerte 774 days ago | link

A joint venture (or a legal entity aka as a company) operates under very different rules than parties working together, probably without a contract.

I don't know how the antitrust laws apply, not even if what they are doing collude with any law at all, despite preventing healthy competition, but your questions come from the wrong premises.

---

tptacek 774 days ago | link

As we just saw with TechCrunch v FusionGarage, the paper contract has little to do with whether something is or isn't a joint venture.

Broaden the word "antitrust" to "laws against all contracts in restraint of trade", and re-ask the question to yourself. These people are investors. Investors are allowed to work together, aren't they?

---

tptacek 774 days ago | link

Before I turn into "the guy on the thread arguing that the Evil Angels are just peachy", banding together for the sole purpose of pushing back YC and making life harder for founder is a total dick move, and I'm happy Arrington is shaming them for it.

But it is a much more ambitious claim to say that they're breaking federal laws by doing it.

Federal funds flow to clean-energy firms with Obama administration ties

By Carol D. Leonnig and Joe Stephens, Washington Post

Sanjay Wagle was a venture capitalist and Barack Obama fundraiser in 2008, rallying support through a group he headed known as Clean Tech for Obama.

Shortly after Obama's election, he left his California firm to join the Energy Department, just as the administration embarked on a massive program to stimulate the economy with federal investments in clean-technology firms.

Following an enduring Washington tradition, Wagle shifted from the private sector, where his firm hoped to profit from federal investments, to an insider's seat in the administration's $80 billion clean-energy investment program.

He was one of several players in venture capital, which was providing financial backing to start-up clean-tech companies, who moved into the Energy Department at a time when the agency was seeking outside expertise in the field. At the same time, their industry had a huge stake in decisions about which companies would receive government loans, grants and support.

During the next three years, the department provided $2.4 billion in public funding to clean-energy companies in which Wagle's former firm, Vantage Point Venture Partners, had invested, a Washington Post analysis found. Overall, the Post found that $3.9 billion in federal grants and financing flowed to 21 companies backed by firms with connections to five Obama administration staffers and advisers.

Obama's program to invest federal funds in start-up companies — and the failure of some of those companies — is becoming a rallying cry for opponents in the presidential race. Mitt Romney has promised to focus on Obama's "record" as a "venture capitalist." And in ads and speeches, conservative groups and the Republican candidates are zeroing in on the administration's decision to extend $535 million to the now-shuttered solar firm Solyndra and billions of dollars more to clean-tech start-ups backed by the president's political allies.

White House officials stress that staffers and advisers with venture capital ties did not make funding decisions related to these companies. But e-mails released in a congressional probe of Obama's clean-tech program show that staff and advisers with links to venture firms informally advocated for some of those companies.

David Gold, a venture capitalist and critic of Obama's investments in clean tech, said that even if staffers had been removed from the final decision-making, they had the kind of inside access to exert subtle influence.

"To believe those quiet conversations don't happen in the hallways — about a project being in a certain congressman's district or being associated with a significant presidential donor, is naive," said Gold, who once worked at the Office of Management and Budget. "When you're putting this kind of pressure on an organization to make decisions on very big dollars, there's increased likelihood that political connections will influence things."

Energy Department spokesman Damien LaVera said the companies won awards based on merit, not political connections. He said the staffers and advisory board members reviewed by the Post had no role in funding decisions, nor did they have any personal financial stake in the companies. One of those administration advisers had first been appointed to his position by the Bush administration, LaVera said.

"As is evident from the 10-month long congressional investigation into Solyndra, Energy Department loans and grants are decided on the merits," White House spokesman Eric Schultz said. "What's more, these are all professionals with expertise in clean-energy science, finance or both — but none of them play a decisional role in DOE awards and none of them are in positions of regulating the industry."

Venture capitalists arrive

During the 2008 campaign, the venture capital industry lined up behind Obama as he vowed to spur clean-technology development. Obama raised more than twice the venture capital contributions of his opponent, Republican candidate John McCain.

Known for making billions of dollars in the 1990s on Internet startups, venture firms in 2006 were rapidly switching to invest in clean tech. Legendary venture partner John Doerr, a leading early investor in Google and Amazon, that year called the clean-energy sector the next great profit center, “the mother of all markets.”

With the 2008 economic crisis, new private investment in fledgling clean-tech companies withered. But passage of the $787 billion stimulus package offered new opportunities to launch and grow those firms, with $80 billion set aside for clean energy and energy-efficiency efforts.

Suddenly flush with cash, the Energy Department was under orders to ramp up quickly and get money out to promising companies. The administration tapped industry players to take on key Energy Department roles, both as agency staffers and outside advisers on agency boards.

Wagle, then 38, took a job as a stimulus adviser in the agency’s recovery act office. Officials say his role did not involve making funding decisions for companies tied to Vantage Point.

Private investors cheered the administration for hiring industry colleagues. In a 2009 article, venture firm leader Jim Matheson said Wagle, along with another Washington-bound venture capitalist, David Danielson, would help ensure commercial successes from “the steady flow of dollars coming out of D.C.”

Wagle’s former employer had invested in several companies that received federal money: Brightsource, which won a $1.6 billion federal loan for a solar-generating plant; Tesla Motors, which won a $465 million loan to build electric cars; and biofuels firm Mascoma, which in 2011 received $80 million for a Michigan ethanol plant.

Wagle recently returned to the California venture capital industry to work as an investor and clean-tech adviser. Reached at his home, he declined to comment. Vantage Point Venture Partners, renamed Vantage Point Capital Partners, did not respond to requests for comment.

Danielson, formerly of General Catalyst, joined an Energy Department office whose mission was to fund breakthrough energy technologies. Officials say he had no role in arranging $105 million in funding for three General Catalyst portfolio firms.

David Sandalow, a former Clinton administration official and Brookings Institution fellow, had been paid $239,000 for consulting work for a venture capital firm, Good Energies, in 2008 before joining the Energy Department as assistant secretary for policy and international affairs, his disclosure form shows.

A Good Energies-backed firm, SolarReserve, won a $737 million agency loan. Officials say Sandalow played no role in arranging it and LaVera, speaking on behalf of Sandalow, said the assistant secretary had no financial interest in Good Energies or SolarReserve.

The Energy Department came under criticism from Republicans earlier this year when agency e-mails raised questions about a possible conflict of interest involving Steven J. Spinner, a former department loan adviser who disclosed that his wife worked for Wilson Sonsini, a Silicon Valley law firm that handled funding applications for several clean-tech companies.

Wilson Sonsini's clean-tech clients reaped $2.75 billion in Department of Energy grants and financing, the Post analysis found.

One of the firm's clients was Solyndra. Republicans have accused the Obama administration of favoring the risky company because its leading investor was tied to a major Obama donor.

Wilson Sonsini had its own connection to the White House: the firm's chief executive, John Roos, was a top bundler for Obama's 2008 campaign.

Before joining the administration, Spinner, a venture investor and start-up adviser, also helped raise $500,000 for Obama as a member of his national campaign finance committee. He has pledged to raise a half-million dollars or more for Obama's reelection effort.

Once inside the agency, Spinner agreed not to discuss loan matters involving Wilson Sonsini clients. But e-mails show he urged career officials to resolve delays in the Solyndra loan, and also defended the financial prospects of Solyndra to a White House deputy before its federal loan was approved.

Spinner left the Energy Department in the fall of 2010. He did not respond to requests for comment. The department said Spinner was not involved in the company's application review or loan approval.

A Wilson Sonsini spokesman said the firm does not believe its employment of Spinner's wife influenced Energy Department decisions.

I nvestors as advisers

Thousands of agency and White House e-mails released as part of the Solyndra investigation show that venture capitalists who held advisory roles with the Energy Department were given access to Obama's top advisers.

Steve Westly, an Obama fundraising bundler for both his 2008 and 2012 campaigns, is a founder of the venture firm Westly Group and served part time on Energy Secretary Steven Chu's advisory board.

The e-mails show that Westly communicated with senior White House officials, including Obama adviser Valerie Jarrett, voicing concerns about the president's planned appearance at Solyndra.

Westly's firm also fared well in the agency's distribution of loans and grants. Its portfolio companies received $600 million in funding. LaVera said Westly had no role in the funding decisions.

David Prend also surfaces in the e-mails as a venture capital investor who had White House access.

His firm, Rockport Capital Partners in Boston, was among the investors in Solyndra, with a 7.5 percent stake. The e-mails show him asking a White House aide to “help get the word out” about Solyndra and asking for help on another Rockport portfolio company. They show he and a group of venture capital investors met with new White House climate czar Carol Browner before Solyndra’s loan was tenatively approved, and the White House confirmed that the subject of the company came up briefly.

Prend had worked closely with the Energy Department since the Bush administration, when he was first appointed to an advisory panel for the National Renewable Energy Laboratory. He continued to advise the Obama administration, while also chairing a panel that helps advise the department on solar technologies.

The agency provided $550 million to several firms in which Rockport had invested at the time. The department gave an additional $118 million grant to an electric-car battery company, Ener1, that was partnered with Rockport portfolio car company Think. (Rockport soon after invested in Ener1.) Ener1 filed for bankruptcy protection last month.

LaVera and Chad Kolton, a Rockport spokesman, said that Prend’s advisory role was separate from stimulus programs and had no bearing on agency decisions about companies backed by Rockport.

Research editor Alice Crites contributed to this story.

POTOMAC WATCH

May 24, 2012, 7:24 p.m. ET

Vulture Capitalism? Try Obama's Version

A profit-driven economy is preferable to one run by political favoritism.

President Obama is no fan of Mitt Romney-style "vulture" capitalism. So what's his

alternative?

Tweet 127

All those Republicans grousing about the president's attacks on private equity might

instead be seizing on this beautiful point of contrast. Mr. Obama, after all, is no mere

mortal president. Even as he's been busy with the day job, he's found time to moonlight

as CEO-in-Chief of half the nation's industry. Detroit, the energy sector, health care—he's

all over these guys like a cheap spreadsheet.

Like Mr. Romney, Mr. Obama has presided over bankruptcies, layoffs, lost pensions,

run-ups in debt. Yet unlike Mr. Romney, Mr. Obama's C-suite required billions in taxpayer

dollars and subsidies, as well as mandates, regulations, union payoffs and moral hazard.

Don't like "vulture" capitalism? Check out the form the president's had on offer these past

three years: "crony" capitalism.

The case study is the solar-panel maker Solyndra, which was part of a green-energy

sector that even by 2009 was flailing. The president took one look at the industry's utter

lack of both profits and sellable products, and yelled "that's my baby!" The stimulus bill

shipped tens of billions of dollars to the Energy Department to pour into green companies

via grants and loans. It promised five million jobs.

The Energy Department's nuclear physicists were admittedly a bit flummoxed by the

whole P&L thing, but they got their venture-capitalism groove on and in 2009 handed

Solyndra a $535 million loan guarantee. Even prior to disbursement, government

accountants were warning that Solyndra was a lemon, but the White House didn't worry.

After all, the IRS had only recently and conveniently tripled the tax credit (to 30%) for buyers of Solyndra products, which the government figured would help grease their

start-up's skids.

Enlarge Image

Items for auction at Solyndra headquarters in

Fremont, Calif.

Bloomberg

Unfortunately, the physicist-CFOs

overlooked that whole "global energy

market" factor—easy mistake! Foreign

competitors were already piling into

Solyndra's niche. Unable to compete, the

firm went bankrupt last year. And, oh, the

carnage! It was kind of like . . . GST Steel!

Only worse. Solyndra laid off 1,100

employees. It provided no severance, not

even back pay due for vacation credits.

But a bankruptcy judge would later

approve $370,000 in bonuses for 20

employees. Mr. Obama railed against the high-dollar

Silicon Valley investors who lined up in front of government to "suck" the remaining "life"

out of the bankrupt firm, even as employees were left to . . . Oh, wait. He said no such

thing. He was probably too busy doing damage control on his other governmentsubsidized

energy

bankruptcies,

from

Beacon

to

Ener1.

Or

running

down

the

latest

report

of

a

government-funded,

instantaneously

combusting

electric

car.

(Karma,

anyone?

Now

at

the

low,

low

price

of

$103,000.

Fire

extinguisher

included.)

Speaking of cars, Detroit is the business venture Mr. Obama's team has been most

flogging as a success. True, General Motors and Chrysler are still turning their lights on,

though they'd have arguably been doing the same had they been left to go through

normal, orderly bankruptcies like those that helped the steel and airline industries

restructure to become more competitive.

To get to the same place, Mr. Obama's crony capitalism handed $82 billion in taxpayer

dollars to the two firms. That bailout money went to make sure the unions that helped

drive GM to bankruptcy (and helped elect Mr. Obama) did not have to give up pay or

pension benefits for current workers. They were instead rewarded with a share of the new

firm. The UAW at GM meanwhile used the government-run bankruptcy to bar some 2,500

nonunion workers who had been laid off from transferring to other plants. How truly

vulture-like.

Contract law was shredded, as unions were given preference over other creditors, such

as pension funds for retired teachers and police officers. Congressmen used political

sway to keep open their weak auto dealerships, forcing layoffs at stronger ones (vulture .

. . vulture . . . vulture). Political masters obliged the industry to pour resources into

unpopular green cars. The political masters were obliged to offer $10,000 tax credits to

convince Americans to buy them. (They still won't.) And the message to every big

industry? Go ahead, run your business into the ground. The Capitalist-in-Chief has your

back (especially if you are unionized).

So, take your pick. Mr. Obama's knock on free enterprise is that it is driven by "profit," and

that this experience makes Mr. Romney too heartless to be president. The alternative is

an Obama capitalism that is driven by political favoritism, government subsidies,

mandates, and billions in taxpayer underwriting—and that really is a path to bankruptcies and layoffs. If the president wants to put all 3,545 green stimulus jobs he's created up

against Bain's record, he should feel free.

Mr. Romney could make the comparison himself. Ronald Reagan ran against Jimmy

Carter's own industrial policy, and to great success. Viewed in isolation, "vulture"

capitalism has some PR downsides. Viewed against the alternative, it's a flat-out winner.

Write to

kim@wsj.com

Political Payback: Green Corruption –– Part One

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Author: Christine Lakatos — Published: Jul 30, 2010 at 1:01 pm 0 comments

BC Politics Premium

Alarmingly, our environment has been hijacked by uber-rich individuals, crooked politicians, and an assortment of left-wing extremists that are fueled by greed and power attached to a radical agenda to bring about "global governance," “redistribute the wealth,” and put the progressive movement –– big government, social justice and the death of capitalism –– on the fast track. Under the guise of “saving the planet,” these “players,” who are all interconnected in a variety of ways, are transforming our climate into something more sinister –– a scam of epic proportions.

Due to its magnitude and the potential dire consequences to our economy, our freedoms, and the voices of the honorable environmentalists –– this "Climate Scam" will be confronted in three parts.

Green Corruption, Part One

TROXLER AND BROWN PREDICTIONS OF GREEN CORRUPTION CONFIRMED

This year, Lee Troxler and Floyd Brown in their newly released hit book, Killing Wealth, Freeing Wealth How to Save America's Economy and Your Own, chapter ten –– The Biggest Financial Bubble in US History, is where the authors' predicted that the veteran Silicon Valley venture-capital firm Kleiner Perkins Caufield & Byers (KPCB) –– multi-millionaire Al Gore and billionaire John Doerr are both partners –– would get government contracts from the Obama administration unfairly.

In developing this story, which took months of research, backed up with extensive resources, we learned through an anonymous source that there are multiple federal investigations from different agencies and senators underway against the Department of Energy (DOE), in particular, the Loan Guarantee Program (LGP) and possibly others. Our source, who is close to the some of the ongoing investigations –– "guarantees there was corruption and bad ethics involved" and that at this time "a number of the investigations are getting stonewalled." Our findings, along with this recent inside information, confirms Troxler and Browns' predictions –– corruption on the "green front." As we learn more, we will share the details.

At this time we do know that the U.S. Government Accountability Office (GAO) has been in the process of reviewing –– in response to Congress' mandate –– the DOE's execution of the Loan Guarantee Program (LGP), which was established as part of the Energy Policy Act of 2005 and set up for innovative energy projects. About two weeks ago (July 12, 2010), the GAO released their findings and recommendations, noting that the "LGP scope has expanded both in the types of projects it can support and in the amount of loan guarantee authority available. DOE currently has loan guarantee authority estimated at about $77 billion and is seeking additional authority."

At issue, the DOE's lack of "comprehensive performance goals," particularly in relation to the DOE's "broad policy goal of helping to mitigate climate change and create jobs." The GAO concludes, "Without comprehensive performance goals, DOE lacks the foundation to assess the program's progress and, more specifically, to determine whether the projects selected for loan guarantees help achieve the desired results."

Predictably, the GAO also found that the "DOE's implementation of the LGP has treated applicants inconsistently, favoring some and disadvantaging others, as well as the fact that the "DOE lacks systematic mechanisms for LGP applicants to administratively appeal its decisions or to provide feedback to DOE on its process for issuing loan guarantees."

OBAMA'S GREEN STIMULUS

In February 2009 Congress passed the American Recovery and Reinvestment Act (ARRA), the $862 billion stimulus package, for which $86 billion was earmarked for "green," of which the Apollo Alliance –– a left-wing organization who exerts a powerful influence on the views and policies of the Obama administration –– was also involved in drafting. More on Apollo later, but Kleiner Perkins are like ants at a picnic; they’re everywhere that’s green, including on the Apollo board, where they have placed one of their partners, Ellen Pao. Furthermore, Obama was a candidate that both Gore and Doerr had strenuously campaigned for, including financial donations, and early on, Doerr had his hand in shaping ARRA, "urging" Obama's transition team and leaders in Congress "to use the new economic stimulus package to modernize the electric grid and offer new incentives to help clean energy startups get off the ground." Doerr also sits on Obama's Economic Recovery Advisory Board (PERAB), who President Obama appointed as one of the "chosen" back in January 2009.

In following the ARRA, meant to stimulate the economy and create jobs, it is clear that the Obama administration is circuitously funneling government contracts to their favored companies –– "stimulating" the "green" pockets of Kleiner Perkins. This screams corruption and it’s time to call in a special prosecutor!

FOLLOW THE "GREEN" MONEY: KPCB GREENTECH PORTFOLIO

Since last summer when the Department of Energy (DOE) starting handing out the $86 billion "green stimulus" money, Gore and Doerr's "green companies" have been cashing in big time –– billions of taxpayer dollars! Keep in mind, this doesn't account for funds not yet allocated, or hidden contracts, nor the mass amount of money KPCB and others in the Climate Scam will generate if the U.S. climate legislation becomes law –– "Obama Climate," more specifically cap-and-trade, which will be covered in more detail later.

So far over fifty percent of the companies listed on the Kleiner Perkins Caufield & Byers Greentech Portfolio, of which KPCB partners are positioned on the board of many, have –– directly and indirectly –– received money from the "Obama Green Stimulus" package as well as through other government programs approved by the Obama administration.

AL GORE'S FISKER AUTOMOTIVE $529 MILLION DOE LOAN IGNITES RED FLAGS

One of the most blatant government favoritism, catching headlines in the Wall Street Journal back in September 2009 –– Gore-Backed Car Firm Gets Large U.S. Loan –– was the $529 million dollar government loan guarantee (which was cinched in May 2010) that Fisker Automotive received to build its high-end, hybrid sports coupe, Fisker Karma –– to be manufactured in Finland and sold for $89,000. Fisker Automotive was a 2008 investment for Kleiner Perkins and it was "confirmed" that Gore has already purchased his "Karma."

In June 2009 the DOE announced three other large government loans that included $5.9 billion to Ford Motor Company, $1.6 billion to Nissan Motors, and $465 million to Tesla Motors.

Although the four loans came out of the DOE's $25-billion Advanced Technologies Vehicle Manufacturing (ATVM) Loan Program, it was approved by the Obama administration and it did ignite some red flags.

As reported by the Wall Street Journal, "the awards to Fisker and Tesla prompted criticism from groups that question why vehicles aimed at the wealthiest customers are getting loans subsidized by taxpayers" and "concern from companies that had their bids for loans rejected," Included in the reaction was Leslie Paige, a spokeswoman for Citizens Against Government Waste, "This is not for average Americans." "It's status symbol thing," Ms. Paige added. More gripping is the fact that this "favoritism" didn’t sit well with some of the firms that were turned down for loans from the DOE –– stating "they did not get much feedback from the department about their applications" and "were unable to get a full explanation as to why their loan request was turned down."

THE VINOD KHOLSA CONNCECTION

The CEO of EcoMotors John Colettie, whose $20 million ATVM loan from the DOE was denied, didn’t have an “issue” with the winners. Probably because EcoMotors' lead investor is Vinod Khosla, an affiliated partner of Kleiner Perkins, whose firm Khosla Ventures has also invested in some of the same companies as Kleiner Perkins, which have received government funding including Obama Green Stimulus cash. Those companies include; AltaRock Energy Inc., $25 million grant from the stimulus; Amyris Biotechnologies, $25 million grant from the stimulus; and Mascoma Corporation has received state and federal grants from the DOE since 2006, totaling over $170 million and as recent as 2008, received another $49.5 million in funding from the DOE and the state of Michigan.

SILVER SPRING NETWORKS SCORES OVER $700 MILLION IN SMART-GRID GREEN STIMULUS FUNDS –– RIGGING THE BIDDING PROCESS?

One of the most contentious of Obama Green Stimulus money awards comes out of the ashes of the $4 billion smart-grid grants, with some of the nation's largest providers of electricity meters "crying foul" over the smart-grid standards in the stimulus bill, according to a report by USA TODAY in February 2009. Additionally, they said that the economic stimulus bill "could put them out of business and wreak havoc in the new market for smart-grid technology by favoring certain computer network standards."

Itron, Landis+Gyr, Elster and Aclara even wrote a letter to U.S. Senators to voice their concerns regarding the "protocols and standards" that were placed into the House version of the legislation for all smart-grid projects, which states that "utilities receiving funding must use Internet-based or other open protocols and standards if available and appropriate." Ed Gray, vice president of regulatory affairs for smart-meter provider Elster, said "the bill gives a leg up to Silver Spring at the expense of other providers."

Interestingly, in March 2009, a month after the stimulus bill had already passed, Jeff St. John from GreenTechMedia.com, quoted a statement made by Stuart Bush, an alternative energy analyst for RBC Capital Markets, "both Trilliant and Silver Spring (both smart-grid communications companies) could benefit from the way the stimulus plan was structured to require open standards." Bush also added, "Clearly the West Coast VC guys had a lot of lobby pull getting that in there."

Clearly the "West Coast VC guys" –– Kleiner Perkins (Gore and Doerr), have more than "lobby pull." In fact, Silver Spring Networks, as revealed in Troxler and Browns book, is one of Kleiner Perkins shining “green” companies –– their 2008, $75-million investment has scored over $700 million! Since August of 2009 when the DOE started dishing out the $4-billion from the Smart Grid Investment Grant Program (part of the stimulus plan) –– awarded to selected utility companies for particular smart-grid projects –– close to sixty percent of Silver Spring “customers” were winners.

• American Electric Power (AEP) received $75 million for AEP Ohio gridSMARTSM Demonstration Project, announces earth2tech.com in August 2009. It should be noted here that Richard Sandor is on the AEP board. Sandor, Chairman and founder of the Chicago Climate Exchange, who is connected to President Obama and Al Gore, is another key "player" in this Climate Scan, which will be exposed later.

• Bluebonnet Electric Cooperative got $18.8 million for a general smart- grid build out in Texas as reported in August 2009 by earth2tech.com. Additionally, in November 2009 Austin’s Pecan Street Project won $10.4 million in federal stimulus money to create a smart-grid demonstration project, which includes Bluebonnet as part or their Technology Review and Advisory Committee.

• In October 2009 Florida Power & Electric was awarded $200 milllion for Energy Smart Florida –– posted by earth2tech.com.

• In April 2010 Pepco Holdings Inc. signed contracts for three ARRA grants totaling $168.1 million to advance smart-grid projects, reported by the Washington Business Journal. Additionally in April 2010, Secretary of Energy Steven Chu announced $100 million from the stimulus will go for Smart Grid Workforce Training and Development, of which Florida Power & Light got $5 million and Pepco got just over $4.3 million.

• In October 2009, "the U.S. Department of Energy announced that Modesto Irrigation District (MID) was one of only six California utilities selected to receive a $1.5 million federal stimulus grant to support MID's efforts to install smart control equipment throughout its electric infrastructure" –– published in an Oracle Press Release.

• Oklahoma Gas and Electric Co. received a $130 million stimulus grant for a 771,000 smart meter deployment, as reported in October 2009 by GreenTechGrid.com.

• Sacramento Municipal Utility District got a $127.5 million stimulus grant for a comprehensive regional smart-grid system, announced in October 2009 by GreenTechGrid.com.

• According to an August 2009 article by earth2tech.com, Pacific Gas and Electric (PG&E) –– another Silver Spring customer –– "applied for $42.5 million government grant for home area networks in conjunction with the city of San Jose and Stanford University," yet it is unclear whether or not they received it. However, in May 2010, the DOE awarded PG&E a $25 million stimulus grant to develop compressed air storage for electricity" –– writes the San Francisco Business Times.

But the "government bucks" don’t stop at Silver Spring Networks...

Ausra Inc.

Ausra Inc. –– a KPCP investment that "develops and deploys utility-scale solar technologies," was acquired by AREVA Inc. in March 2010. Then in July 2010 "AREVA accepted the U.S. Department of Energy’s (DOE) offer of a conditional commitment to issue a $2 billion loan guarantee to support construction of the Eagle Rock Enrichment Facility, AREVA’s $3 billion state-of-the-art gas centrifuge enrichment plant in Bonneville County, Idaho."

Bloom Energy

Bloom Energy –– Kleiner Perkins is listed as a primary investor and John Doerr as a board member –– in February 2010 launched its Bloom Box. The real name is the “Bloom Energy Server" and is marketed as "a stand-alone electric generator that requires no connection to any centralized power generating plant and no coal-based or oil-based fuel to operate it" (translation: cheap, clean energy flows almost magically from a refrigerator-sized box). The Bloom Box debuted in a "big scoop" segment on 60 Minutes on February 21, 2010, followed with a star-studded (Governor Arnold Schwarzenegger and Colin Powell) Bloom Energy Press Conference attended and filmed by TheAutoChannel.com. Marc J. Rauch Executive Vice President/Co-Publisher of The Auto Channel noted "our contact [at the National Renewable Energy Labs (NREL) in Colorado] had known of the Bloom technology and revealed that the government had actually provided a $5 million grant to the company during its development stage. There are also rumors (and news) of "an enormous government contract to order the Bloom Box" and Bloom Energy "is due for a verdict on their DOE stimulus funds shortly," as reported by GreenTechMedia.com, February 19, 2010.

Harvest Power Inc.

Harvest Power Inc., backed by Kleiner Perkins, is basically a company that "turns trash into fertilizer and fuel," and according to a June 2009 article by GreenEnergyNews.com and a City of San Jose Press Release, "GreenWaste Recovery would partner with Harvest Power Inc. on a project (if approved by the city council) known as the Zanker Road Biogas facility." Mayor Chuck Reed said in a statement, "This project not only demonstrates San Jose's leadership in the production of renewable energy but will help us meet the economic development, zero waste and energy goals of our city's Green Vision,"

Evidently, the Green Vision is raking in big bucks from the Obama Green Stimulus, as reflected in their 2009 Annual Report –– "In 2009 over $50 million in federal and state grant money, including federal stimulus dollars were allocated or awarded towards projects that will advance Green Vision goals." Additionally, "local companies received over $80 million in federal tax credits that will spur expansions and hiring in sectors such as renewable energy," and as of May 2010, the City of San Jose –– Capitol of Silicon Valley –– "is estimated to receive nearly $108 million in Recovery Act funds."

MiaSolé

MiaSolé Thin-film Solar, part of the KPCB Greentech Portfolio, with "more than 500 applications that were submitted for the tax credits," in January 2010 MiaSole "received two Advanced Energy Manufacturing tax credits totaling $101.8 million from the Obama administration for the manufacture of low-cost thin-film cells and modules."

RecycleBank

RecycleBank –– another Kleiner Perkins green investment –– works with municipalities and haulers to measure and reward residents for recycling. As reported by RecycleBank, "in April 2009 $2.8 billion were allocated to cities with 14 uses that include recycle projects." It turns out that Philadelphia, Pennsylvania; Houston, Texas; and Hartford, Connecticut were the first cities to "take advantage of stimulus funds and work with RecycleBank to improve their waste diversion rates." Also, in August 2009, Chicago became the first Illinois city to partner with RecycleBank, then there are the cities in between, and recently in February 2010, Los Angeles became the largest city to partner with RecycleBank.

While it is obvious that the folks at Kleiner Perkins have strategically positioned their investments to profit from “green,” including the massive influx of taxpayer money, placing them ahead of the competition –– still others need government mandates and regulations to really make them fly. One company in particular is Hara Software, "a company that sells software to help businesses measure and reduce their greenhouse gas emissions," where three KPCB partners sit on the Hara board. In a June 2009 article by Reuters –– Gore-Backed Hara Sees Profit From Low-carbon Economy –– Hara Chief Executive Amit Chatterjee, who in July 2009 was part of a group of "innovative energy leaders" that "advised Obama," stated that [cap-and-trade] "will force companies to act, as opposed to seeing the business benefit of acting." "The debate alone of 'cap and trade' is a driver for our product," Chatterjee added.

Considering the magnitude of this Climate Scam –– its scope; cost and paybacks; "players" and agendas –– these findings may only scratch the surface. This Climate Scam goes beyond the billions of taxpayer dollars that Gore and Doerr, via Kleiner Perkins, have already unfairly snagged from the Obama Green Stimulus and huge DOE grants and loans. More disturbing is the fact that these "players" –– and others that will be exposed in Green Corruption parts two and three –– have direct ties to the Obama White House, strong influence over government policy, and are connected to the rest of those caught up in this scam, including the hard-core-left-wing radicals

Moreover, most of "the players" have helped create, shape, facilitate, lobby, testify, sell, and even if the planet blows up, will get their cap-and-trade, which despite reports that it's dead in the Senate, will soon to be on the Obama agenda –– the real pot of gold at the end of the "climate rainbow."

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Article tags

• "green" investments

• • Al Gore

• • American Recovery and Reinvestment Act

• • Apollo Alliance

- • billions of taxpayer dollars
- • Cap-and-Trade
- • Climate Scam
- • Department of Energy
- • eds-pick
- • Floyd Brown
- • global warming
- • Government Accountability Office
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- • Killing Wealth Freeing Wealth
- • Kleiner Perkins Caufield & Byers
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Read more: http://blogcritics.org/politics/article/obamas-political-payback-green-corruption-part/page-7/#ixzz0vD7iSp5n

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The Greentech VC Influence Over Washington

By Katie Fehrenbacher Aug. 18, 2010, 8:28am PDT

here've been a couple articles in the past few weeks

pointing to President Obama as the "

clean tech investor in chief" and the presidential VC with bets on

clean energy. The real trend is that venture capitalists focusing on greentech seem to have had an

unprecedented influence on U.S. federal policy and allocations of the stimulus package.

When I attended the Department of Energy's (DOE) first

ARPA-E conference (Advanced Research

Projects Agency-Energy) earlier this year in Washington D.C., I was struck by how many venture

capitalists were there. I shared a cab back to the airport with some familiar Silicon Valley faces, and

was told if your firm didn't have a dedicated person in Washington — in some circles they call them

lobbyists — maneuvering grant and loan programs, you weren't able to be competitive.

Just look at the figures from the stimulus package (which I am fully in support of): somewhere

between $50 billion and $80 billion into clean power and energy efficiency initiatives (

depending on how you slice it). The Obama administration has gone out of its way to seek the advice of greenleaning

venture

capitalists

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entrepreneurs

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Kleiner Perkins managing partner John Doerr is on President Obama's

Economic Recovery Advisory

Board, and was able to convince Vice President Al Gore to join Kleiner, in addition to former

Secretary of State Colin Powell. Kleiner's investments have had some successful government bids,

most notably the

$529 million loan to Kleiner portfolio company Fisker Automotive out of the DOE's

highly competitive Advanced Technology Vehicles Manufacturing, or ATVM, program. Fisker plans

to use the loan to build its factory and launch its electric vehicle in 2011.

If you remember, another winner of the $25 billion ATVM program was Tesla Motors, which, as

most of us know, was backed by venture capitalists from Draper Fisher Jurvetson, Technology

Partners, and Vantage Point among others.

I attended Khosla Venture's LP meeting earlier this year where the firm

announced that former UK

Prime Minister Tony Blair would be joining the firm as Senior Advisor. Several of my journalism

peers were comparing the political influence Blair could wield to what Kleiner was doing with Gore.

The Obama administration appointed

former venture capitalist Jonathan Silver as its loan chief to lead

both the DOE's loan guarantee and ATVM loan programs. About a third of the DOE's loan guarantee

commitments went to venture-backed startups, including thin film solar maker Solyndra and solar

thermal company BrightSource.

I

wondered earlier this year if the loan guarantee for Solyndra wasn't a mistake, given the company

has one of the highest manufacturing costs out of its competitors. The company withdrew its IPO

plans, citing poor market conditions. The Government Accountability Office also found that the loan

guarantee process treated some companies unfairly in their bids and risked "excluding some potential

applicants unnecessarily."

There's nothing inherently wrong with venture-backed companies getting government support, and

the energy sector needs even more federal funding to create innovation. I support Doerr and Bill

Gates'

calls for boosting federal government investing to $16 billion per year into energy innovation.

All I’m saying is that this level of influence should be watched.

This is how VC's and DOE Staff work together as reported by one of Tesla Motors senior executives:

In Role as Kingmaker, the Energy Department

Stifles Innovation

By Darryl Siry December 1, 2009 | 8:30 am

Of all of the Department of Energy programs intended to advance the green agenda while stimulating

the economy, the Advanced Technology Vehicle Manufacturing incentive to spur the development of

cleaner, greener automobiles is perhaps the most ambitious. But it has a downside.

The energy department has approved direct loans to Nissan, Ford, Tesla Motors and Fisker

Automotive totaling about $8 billion out of a budget of $25 billion. The magnitude of this program

dwarfs other DOE campaigns like the $2.4 billion given to battery and electric vehicle component

manufacturers and the $4 billion disbursed for “smart grid” projects.

To the recipients the support is a vital and welcome boost. But this massive government intervention

in private capital markets may have the unintended consequence of stifling innovation by reducing the

flow of private capital into ventures that are not anointed by the DOE.To understand this apparent contradiction, you have to look at the market from the perspective of

venture capitalists looking to deploy investors' capital and startups looking to attract it.

Venture capitalists evaluate a company on the basis of whether they think it will succeed and generate

returns for their portfolios. While this evaluation is a function of many things, one key question is

how much more capital the company will need to get its product to market or a liquidity event so that

the venture capitalist can see a return. The more capital it needs, the more dilutive it will be to the

early investors.

In cleantech, and in particular alternative fuel vehicles, the capital requirements for companies

bringing a car to market in significant numbers can be extraordinarily high, reaching into the hundreds of millions of dollars if the company wants to build its own manufacturing facilities.

To a venture capitalist, this capital requirement can be daunting. This is why government financing is

so attractive. In the case of the

advanced technology manufacturing loans, the DOE steps up for 80

percent of the total amount needed. Private sources fund the other 20 percent. This amounts to free

leverage for the venture capitalist's bet, with no downside. Hedge funds historically used massive

leverage to generate outsized returns, but if the trade turns against them, that same leverage multiplies

their downside and can lead to financial ruin. In the case of the DOE loans or grants, the upside is

multiplied and the downside remains the same since the most the equity investor can lose is the

original investment.

The proposition is so irresistible that any reasonable person would prefer to back a company that has

received a DOE loan or grant than a company that has not. It is this distortion of the market for private capital that will have a stifling effect on innovation, as private capital chases fewer deals and

companies that do not have government backing have a harder time attracting private capital. This

doesn't mean deals won't get done outside of the energy department's umbrella, but it means fewer

deals will be done and at worse terms.

According to Earth2Tech, venture capitalist

John Doerr commented on this at the GreenBeat

conference earlier this month, saying "If we'd been able to foresee the crash of the market we

wouldn't probably have launched a green initiative. Because these ventures really need capital. The

only way in which we were lucky I think is that the government stepped in, particularly the

Department of Energy. Led by this great administration that put in place these loan guarantees."

Several sources within startup companies seeking DOE loans or grants have admitted that private

fundraising is complicated by investor expectations of government support. None would speak

publicly due to the sensitivity of the issue and the ongoing application process.

Aptera Motors has struggled this year to raise money to fund production of the Aptera 2e, its

innovative aerodynamic electric 3-wheeler, recently laying off 25 percent of its staff to focus on

pursuing a DOE loan. According to a source close to the company, “all of the engineers are working

on documentation for the DOE loan. Not on the vehicle itself.” Another highly placed source at

Aptera told Wired.com many potential investors wanted to see

approval of the DOE loan before

committing to invest.

Startup companies that enjoy DOE support, most notably

Tesla Motors and Fisker Automotive, have

an extraordinary advantage over potential competitors since they have secured access to capital on

very cheap terms. The magnitude of this advantage puts the DOE in the role of kingmaker with the

power to vault a small startup with no product on the market -– as is the case with Fisker — into a

potential global player on the back of government financial support.As a result, the vibrant and competitive market for ideas chasing venture capital that has been the engine of innovation for decades in the United States is being subordinated to the judgments and

political inclinations of a government bureaucracy that has never before wielded such market power.

A potential solution to this problem may seem counter-intuitive. The best way to avoid market

distortion would be for the DOE to cast the net more broadly and provide loans and grants to a larger

number of companies — which ironically means being less selective. Subject to the existing equity

matching requirement, this would allow the private markets to function more effectively in funding a

broader range of companies and driving more innovation. Several innovative companies with great

potential have been in the DOE pipeline for many months. Perhaps it is time for the DOE to stop

playing favorites and start spreading the love.

Wired.com contacted the Department of Energy for comment but did not receive a reply.

Disclosure: Darryl Siry was the chief marketing officer of Tesla Motors from December 2006 until

December 2008 and is a special advisor to Coda Automotive, which has not sought an Advanced

Technology Vehicle Manufacturing loan.

Photo: Ford Motor Co. Energy Secretary Steven Chu addresses Ford employees on June 23, 2009,

after announcing the automaker will receive a $5.9 billion loan.