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Firm hopes to save Silicon Valley from zombie start-up apocalypse

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"Dead Rising 3" "zombies" cross over Manhattan Bridge as they head to the Best Buy Theater in Times Square for the launch of Xbox One. (Diane Bondareff / Invision / Microsoft / November 21, 2013)

By Chris O'Brien
December 24, 2013 | 12:11 p.m.

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Most Silicon Valley start-ups that you hear about seem to have one of three fates.

In the best cases, they have an IPO. Next best case, they are acquired by some big-tech sugar daddy.

Then there are those that simply die. They run out of money, the business shuts down, everyone is pink-slipped and all the

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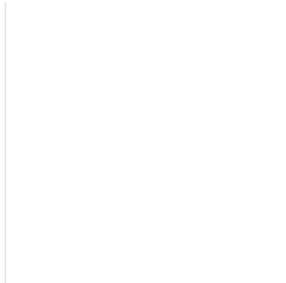
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But what you don't hear much about are the other ones. These are start-ups that do, well, OK. They raise a bunch of venture capital, they sell just enough stuff to pay the bills, cut paychecks and keep the lights on. Maybe they have just a dozen or so employees.

It's enough to make a respectable living, but they're never going to achieve the hyper-growth that leads to an IPO or acquisition. They just muddle along.

It is these poor start-ups that are every venture capitalist's nightmare. They are Silicon Valley's walking dead.

VCs know they will never get a return on their investment, and most likely won't even get back the millions of dollars they invested. But because the firms don't collapse, venture investors can't write them off as tax losses either.

They are just in limbo.

Riding to the rescue is a new firm started by two longtime friends who want to save Silicon Valley from this zombie apocalypse.

The firm is called [CapGain Solutions](#), which is a subsidiary of Zombie Apocalypse Holdings LLC. CapGain and ZAH are operated by Gary Kremen and Michael McTeigue.

Kremen is the co-founder of Match.com and a longtime Silicon Valley investor and entrepreneur. In the 1990s, he was a roommate of McTeigue, a former professional golfer who has his own track record as an investor and entrepreneur.

McTeigue said the zombie investment idea was something Kremen had been thinking about a long time, based on his own experience of trying to get out of investments that simply won't die and being frustrated that he couldn't get the paperwork to declare tax losses.

So in November, the two launched their new firm and are busy trying to land deals before the year ends.

McTeigue walked through one deal to explain how the process works.

A venture investor who had put \$210,000 into a company approached them. He wanted out because the company's valuation had continued to decline. The investor estimated that his original investment was now worth about \$10,000.

McTeigue offered the guy \$500 for this stake in the company. The deal was sealed relatively quickly, and now CapGain owns about .5% percent in this company. The investor gets to write off \$209,500 from his taxes.

"The guy had maybe a nice dinner, and he gets the write-off," McTeigue said. "So he's happy. It's some salve to his wound from a bad investment."

And what does CapGain get? Well, it's a relatively tiny bet that this start-up just might at some point have some kind of exit, or liquidation, that returns some money to investors. If not, it's not big loss for the two partners.

"We're in a funny little niche in value investing," McTeigue said. "You buy stuff on the cheap and hope it goes up a bit."

Because three out of four venture-funded companies never return any money to investors, there's certainly a large pool of targets out there if McTeigue and Kremen can persuade investors to part with their shares.

McTeigue said they've done a couple of dozen deals. In one case, he said, they put in as little as \$1 to get stock that had once been valued at \$20,000 in a company that had been delisted.

"We know the vast majority of them won't pay off," he said. "Typically, the person we're talking to about these investments doesn't place any economic value on their holding. They just want to get rid of it as quickly as possible."

For the moment, CapGain is just a part-time gig for both partners, who are busy with other investments. McTeigue said they expect it to be mostly a seasonal business, with investors looking to unload bad investments before the end of the year to realize the tax losses.

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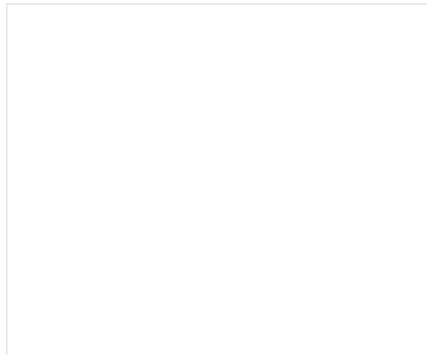
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"We're like the 1-800-Junk-King of the venture industry," he said. "We'll come to your house, pack up all the stuff you don't want, and take it away. It's not a glorious business model. But it's fun."

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The level of pompousity of this article, its subjects and the attitude of venture ("vulture") capitalists, in general, is vomit-inducing. Venture capitalists (VCs) believe that small business wouldn't exist without them. The fact is that small businesses are born, grow and thrive every day without VC - but the opposite is not true: VCs wouldn't be able to light their cigars with \$100 bills if it weren't for small business. VCs need small business - not the other way around.

Having started two companies - one which is currently growing (no thanks to VC) and another that was successfully sold for \$18.5 million 2013 dollars - without the help of VC - I think that VC is ONLY a last resort, and should only be used if you would not be able to sustain your company without an infusion of cash. VC, in my opinion, is the business equivalent of a loan shark.

There is one thing that VC is good for: introducing legions of pompous, self-promoting, arrogant and self-important jackasses into your company to suck up the majority of your time.

Small business owners use VC so that their time isn't spent looking for money to grow their business - but once funded by VCs, they trade that time for satisfying and babysitting the VCs.

righteous_one at 12:40 PM December 24, 2013

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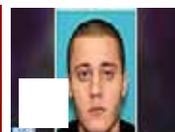
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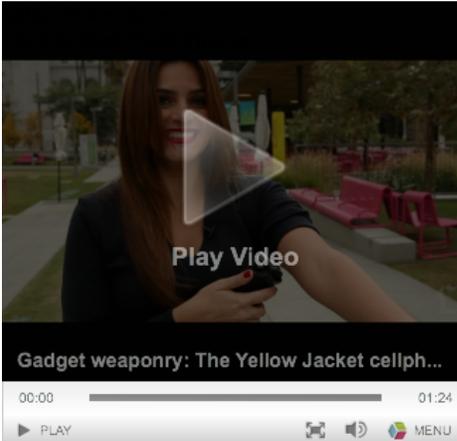


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