



Feld Hyde, P.C.
2000 SouthBridge Pkwy, Suite 500
Birmingham, AL 35209

Phone: 205.802.7575
Fax: 205.802.7550
Web Site: <http://www.feldhyde.com>

Bootstrapping is BACK...

Joshua Watkins, esq., Feld Hyde, P.C. and Birmingham Angel Network, LLC

As published in the Birmingham Venture Club March/April 2009 Newsletter

Over a nice snowy weekend I had some time to think about the state of the Venture Capital markets. Of course, as I am well reminded by my friend Mark Edberg, “beware small sample sizes” and this is the smallest of small, being a sample of one.

Nonetheless, there appear to be some clear trends that I have seen in my legal practice and as director of BAN (Birmingham Angel Network).

- Submissions are up.
- Investor interest is mixed.
- Joint ventures are up.
- Bootstrapping is way up.

All of these trends are as clear as the nose on my face and (maybe not as clear) are related. Of course we all know, innovation historically flourishes in a down economy and presumably this is because smart people have to find better ways to get things done to stay afloat. Unfortunately for these innovators, they are not finding a lot of financial support in the current market. Traditional credit is very tight, angels have taken a beating in the market and our venture capital community seems to have a new article written every day declaring the “end of venture capital.” This appears to have lead to a scenario where valuations are down and seemingly everyone thinks great deals may be had, yet investments are low.

So what is a new entrepreneur to do? Well, it appears that the early answer is to barter.

The common characteristic among the types of activity that are up is mainly that it minimizes direct cash investment and is somewhat less risky. Joint ventures allow for strategic investment by the investor and may allow a mix of both cash investment as well as non-cash. Some angel investors that are also business owners have even leveraged down-time by taking stock in lieu of payment for necessary services from their companies.

AND bootstrapping is back.

It seems that every other article I have read lately is promoting the idea of bootstrapping...and if we believe Steve Wozniak, co-founder of Apple (and why would we not) who said, “all the best things that I did at Apple came from (a) not having money and (b) not having done it before, ever. Every single thing that we came out with that was really great, I’d never once done that thing in my life...” that may not be such a bad thing. At least we know a company that starts out bootstrapped is resourceful and they should be able to handle money.

Nonetheless, it is clear to me that startup capital is eventually essential to almost every successful company and that we in the Birmingham startup community need to continue to band together and support each other because we are going to drive the future of our region...one way or the other.

*This article was submitted by Birmingham Venture Club member Joshua Watkins, esq.,
Feld Hyde, P.C. and Birmingham Angel Network, LLC*