

Cartels, Collusion and Price Fixing in Silicon Valley

[John Hudson](#)

Michael Arrington has a history of [breaking big news stories](#) for his technology site, TechCrunch. His modus operandi is "[to bust the door down and clean the mess up later](#)." Today--he's got a big mess to clean up.

On Tuesday night, Arrington published a [sizzling bombshell](#) about powerful Silicon Valley investors seemingly engaged in collusion and price fixing. The story begins when Arrington is tipped off to a secret meeting of 10 "super angel" investors at a wine bar in San Francisco. Arrington says these investors account for "nearly 100% of early stage startup deals in Silicon Valley." When he walks in on their meeting, the silence is "deafening" and he says he's "never seen a more guilty looking group of people."

After an awkward exchange, he leaves the meeting but manages to speak with a handful of investors afterwards to find some damning testimonies. According to Arrington, the super angel investors were colluding against both entrepreneurs and traditional venture capital firms. They wanted to act together to "keep traditional venture capitalists out of deals entirely" and "keep out new angel investors" from entering the market and driving up valuations. They also kept an online wiki to coordinate their ideas. A handful of attendees said they were "extremely uncomfortable" with the manner of the discussion and Arrington explains why:

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.

Big scandal, right? Maybe, maybe not. Arrington's story is facing a wave of scrutiny on the Web. Though Arrington didn't name names in his story, one angel investor has already admitted to attending the meeting and--in a salty blog post--calls him "[dead f--ing wrong](#)." A number of other technology bloggers have raised skepticism about his story. Here's what they're saying:

- **This Doesn't Add Up**, writes [Sarah Jacobsson Purewal](#) at PC World: "If, in fact, this is a top-secret tech cartel that has funded almost all Silicon Valley start-ups, how are the members *so dumb*? Not only do they (a) tell Arrington when and where they're meeting, they (b) share meeting notes with him, and (c) even keep a *wiki* where they can talk about all their illegal colluding and price-fixing. Is it just me, or does something not add up?"
- **There's No Way Those Angel Investors Were *That* Powerful**, writes angel investor [Chris Yeh](#). He estimates that, at best, these 10 investors had \$50 million funds. In total that makes \$500 million. Given that there are "about 500,000 angel investors in the United States, and that they invest about \$20 billion per year... the alleged conspirators only represent 0.5 percent of the annual angel investing activity in the United States." If we're talking Silicon Valley, they only control about 5 percent, Yeh adds. That makes Arrington's estimation of "100% of early stage startup deals in Silicon Valley" seem rather dubious.
- **It Doesn't Work Like This**, writes [Fred Wilson](#), a widely read venture capitalist from New York: "I wasn't at the meeting and I don't know for sure what was discussed. But I know most of these investors and I know what is on their minds right now... This is not a market suffering from collusion. It is a market where the investors wish they could inject some collusion. But they can't and they won't. Market dynamics,

at least as they exist today and for some time to come, will not allow it. I applaud Mike for raising this issue. But I believe it is a bit of a red herring. The fear of VCs colluding is alive and well. But the act of collusion is pretty well dead in the venture business."

- **Answer Me This, Arrington**, writes [Dan Primack](#) at Fortune: "There seems to be an inherent contradiction in Arrington's story: If super-angels are planning to price-fix, wouldn't that enable the very 'traditional' VCs that they are purporting to thwart? If McClure, et. al. all begin offering below-market terms, wouldn't the large checkbooks be emboldened? Moreover, the very reason that so many individual angels became super-angels was to reduce the need for deal syndication. This would seem to encourage it, since meeting participants would need to work together in order to preempt the aforementioned competition."
- **Hold On, Give Arrington Some Credit Here**, writes [Henry Blodget](#) at Business Insider:

In other industries, such behavior is known as "price fixing" and "collusion" -- and it's illegal.

We... want to tip our hat to Mike for his story (it's great) and his, well, balls. It's this sort of work that makes this new form of journalism so valuable and fun. It's also the type of work that would make the tech industry barely notice if the mainstream media just rolled over and died.

As Mike observes, many of the folks he calls out for this meeting are friends and sources, some of whom will undoubtedly be furious at him for exposing their little game.

It takes balls to lob a grenade at your friends like that. It also takes finesse and skill (and power) to do it and still have many of those folks

rushing to call you after the meeting to preserve their relationships with you.

- **I'm With Arrington**, writes Mike Masnick at TechDirt:

While there are plenty more angels in Silicon Valley than just 15, it is true that, these days, companies getting investments from some of the "top" angels is seen as the ticket needed to move up the chain to big name venture capitalists as well. So hearing that a group of these investors may be colluding to effectively fix pricing is bad news for the supposed "meritocracy" of funding in Silicon Valley, and should be seen as a pretty serious problem.

Along those lines, I should say kudos to Arrington for publishing such a story. While he doesn't name names, these investors are the key sources for many of his stories, so publishing this story is probably burning some bridges with sources. It's good to see that he wouldn't let that get in the way