



Facebook backers create \$10 mln fund for start-ups

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SAN FRANCISCO, Sept 17 (Reuters) - Online social networking phenomenon Facebook Inc said on Monday its backers have created an unusual \$10 million fund to dole out grants to start-ups with ideas for innovative Facebook applications.

Facebook is working with its primary venture backers, Accel Capital and The Founders Fund, to create a way for people with new ideas to receive an initial funding grant of \$25,000 to \$250,000 that does not require the entrepreneur to give up any equity in the business they create, as venture capital does.

"We are looking for innovative and disruptive things," Mark Zuckerberg said of projects the grants might fund, in a keynote presentation at TechCrunch 40, a conference showcasing Web start-ups taking place this week in San Francisco.

Projects need not be entirely profit-focused but will be judged based on their overall contribution to Facebook. Non-profit projects could receive funding, officials said.

Rather than seeking to overturn the classic venture capital model, which provides up-front financing to start-ups in return for hefty equity stakes down the road, Facebook hopes to create a more patient model that other venture financiers can follow.

By offering grants rather than venture capital-style investments with strings attached, the fbFund (fb is short for Facebook) entrepreneurs can focus on developing ideas instead of worrying over the dilution that comes from venture funding.

"With just a little bit of capital, a company can grow to hundreds of thousands of users," Zuckerberg said.

The Palo Alto, California-based site has seen its number of active users spike by 70 percent to 41 million members in the four months since it opened up the social networking site to allow independent developers to build programs inside it.

Hundreds of companies have created more than 4,000 applications that run inside Facebook and let users know what each other are watching on Web, how they are feeling at the moment or their favorite movies or music.

When Web ventures can be built with little upfront capital using open-source software and cheap, powerful computers, a grant of up to \$250,000 goes a long way, said Chamath Palihapitiya, Facebook's recently hired vice president of product marketing and operations.

"At a quarter million dollars you can actually create a sustainable business that is worth tens of millions of dollars down the road," he said in an interview at the conference.

The grants have few conditions except that the grantee use the funds to build their company on Facebook Platform.

Companies who build successful early-stage companies on Facebook are then free to seek venture capital funding without any overhang from the prior investment. Facebook is putting no money into the fund itself, only its venture backers.

Accel Partners and The Founders Fund will have the right of first refusal to provide future venture capital financing to companies.

The \$10 million in grants to dozens or even hundreds of companies is designed to be a revolving fund that makes new grants as funds are returned by successful companies. Additional capital could follow, Palihapitiya said.

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