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Three VCs Finance Financier Of SaaS Cos.

By Scott Denne

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SaaS Capital Inc., a specialty finance company that will provide lines of credit to emerging software-as-a-service companies, has raised \$2.3 million from venture capitalists which hope to have a symbiotic relationship with the company beyond the initial equity transaction.

The Series A round was led by Reservoir Venture Partners, with participation from Blue Chip Venture Co. and Village Ventures. The company will also have access to \$10 million in debt capital from an undisclosed financial institution.

Although funding a finance company is not a standard investment for venture capital firms, all parties anticipate extra benefits from the relationship.

For SaaS Capital, contacts in the venture capital industry will be helpful because most of their business will be from the portfolios of venture firms, Steve Jaffee, a general partner with Reservoir Venture Partners.

Reservoir Venture Partners has already looked at investing in one company that came on its radar through SaaS Capital. "I would be surprised if we didn't invest equity alongside" debt provided by SaaS Capital at some point, Jaffee said.

SaaS Capital will provide lines of credit ranging from \$500,000 to \$6 million to companies that have recurring revenue over \$3.5 million annually, said Todd Gardner, chief executive of SaaS Capital and a former director of Blue Chip Venture.

The company will give its clients a discounted advance on the revenue they expect to come in based on service contracts, allowing software providers to have working capital while their clients pay for their services over an extended period. SaaS Capital will then collect payment directly from end users of the software, Gardner said.

"The people who have made a lot of money in the finance business are those that figured out how some form of cash flow was shifting and got ahead of the curve," Jaffee said. "Software-as-a-service is a fundamental shift in the way buyers are purchasing software."

SaaS Capital will not take an equity stake in any of the companies that it lends to, but if a debtor shuts down, it will take over the company's operations and run it with a skeleton crew so that it can continue to collect end-user fees. This will allow SaaS Capital to continue to collect money from bookings and help client companies land larger accounts by making users less reluctant to buy software from an emerging company, said Gardner. SaaS Capital will only operate the company to repay the loan before shutting it down, and any excess profits would go to the equity holders.

SaaS Capital will be opening offices in Boston and the Silicon Valley and anticipates having six or seven clients in the first year.

Chris McCleary a director at Blue Chip Venture will serve as executive chairman of the board. Jaffee will serve as non-executive chairman.

<http://www.saas-capital.com>