

Venture Capital Basics

Presented by

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What Venture Capital (“VC”) is and is not...

- Venture Capital is a sub-class of private equity.
 - Venture capitalists (“VCs”) are professional investors that raise pools of capital from institutional, corporate, and individual investors.
 - VC funds utilize standard limited partnership structure.
- VC used to finance new and growing companies.
 - Typically purchase preferred equity securities.
 - VCs take higher risks and therefore expect higher rewards.
 - VCs make money when companies are sold and/or taken public.
- VCs add value to company through active participation and management.
 - Typically take board of director positions;
 - Help with strategy, sales, hiring, etc.
- Angel investors and passive investors are not VCs

“Ideal” Company for VC

- Strong management
 - Relevant industry experience & contacts
 - Proven ability to execute
 - Perspective
- Addressing large and growing market
- Competitive advantages
 - Defensible IP able to be commercialized
 - Unique business model and/or relationships
- Solid business model
 - Clear technical, financial, and operational objectives
 - Scalable
- Chemistry / strength of relationship with VCs
 - VC investment creates long-term “partnership”
 - Company and its founders understand and accept that VC imposes restrictions and limits on them

Positioning a company for VC, and engaging VCs

- Positioning the company:
 - See previous slide, “Ideal Company for VC”
 - Surround company with strong, trusted advisors (advisory board, attorneys, auditors)
 - Consciously position company to be VC-backed
- Disciplined documentation of IP and inventions
- Clean and well-maintained corporate and legal record keeping
- Accounting books and records kept in accordance with GAAP
 - Company to have realistic expectations about VC and its affect on founders’ short term and long term influence and roles with the company
- Engaging the VCs
 - ID the VCs best for the company (research, research, research)
 - Well drafted, convincing business plan
 - Approach VCs through trusted mutual contacts (attorneys, accountants, other mutual business associates of the VCs and the company)
 - Don’t over-shop (keep focused on a small number of VCs)

How the VC process works

- Initial contacts with VCs (see previous slide, “Positioning a company for VC, and engaging VCs”)
- Presentations to and meetings with VCs
- Due diligence
 - Business due diligence (including IP due diligence)
 - Legal due diligence (including IP due diligence)
- Negotiations and documentation
 - Non-binding term sheet
 - Typical Legal documents
- Preferred Stock Purchase Agreement
- Restated Certificate/Articles of Incorporation
- Investors Rights Agreement
- Management Rights Letter
- First Refusal and Co-Sale Agreement
- Voting Agreement
- Stock Restriction Agreements
- Closing
- On-going relations (see next slide, “So, you got VC funding...now what?”)

So, you got VC funding...now what?

- Game time
 - Executing against plan & the milestone march
 - Board meetings (and change of plans)

Exits

- IPOs
- Mergers and acquisitions
- “How about we just keep it private and we’ll pull out cash when it’s profitable?”
 - VCs are not in the business of investing for cash flow

Q&A

- Open question and answer period

If you have questions that were not answered at this presentation, please feel free to call or email either

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