



# THE CAPITAL NETWORK

## Funding Options 9-8-09

Generously sponsored by:

Premium Sponsors



Gold Sponsors



Silver Sponsors





# Evolution Advisors LLC



**Jeremy Halpern**  
Managing Director

Currently, Managing Director of  **EVOLUTION ADVISORS**

- Corporate Finance (raising angel, venture, private and debt capital)
- Mergers & Acquisition
- Corporate Development Partnership and Relationship Building

Also serve as:

- Chairman, The Capital Network
- EVP of Business Development for AlwaysOn
- Adjunct Professor at Tufts University, Entrepreneurial Leadership Program

Previously:

- EVP of Business Development for MobileTek Corporation
- Corporate Law Associate with Goodwin Procter LLP and Bingham (Boston)
- Corporate Law Associate Irell & Manella LLP (Los Angeles)
- B.A, University of California at Berkeley; J.D. UCLA School of Law



# Show me the Money

Idea / Innovation  
(Intellectual Capital)

Team  
(Human Capital)

Founder Assets  
(Capital)

## EARLY STAGE CAPITAL

\$\$

### Assets

Tangible Assets  
Human Capital Assets  
Intangible Assets / IP

### Revenue

Finished Products  
Deliverable Services



# Types of Capital – Small Business

- Friends and Family (and fools) – Equity, Debt, Combo, Flexible Structure
- Government Grants – SBIR, NIST/ATP, DARPA etc. – Typically non-equity grants
- Foundation Grants – Live Strong Fund etc. - Typically non-equity grants
- Private Investor / Angel Capital – Equity (or convertible debt) from individuals
- Angel Group Capital – Equity (or convertible debt) from individuals or groups
- Venture Debt Financing (Debt + Warrants):
  - Capital Lease Financing – Computers, Printers, Copiers etc.
  - Asset Financing – Lending against salable tangible assets
  - A/R Financing – Lending against receivables (Factoring)
- Venture Capital – Equity Financing
- Royalty Financing – Revenue Sharing +/- Equity (or Warrants)
- Working Capital Debt – Lending against historic revenue streams
- Customer Financing – Typically cash in exchange for discounts on future product +/- warrants
- Vendor Financing – Typically deferral of fees, either on extended credit, for premium +/- warrants
- Strategic Financing – May be equity, NRE grants, cost absorption, debt or combinations

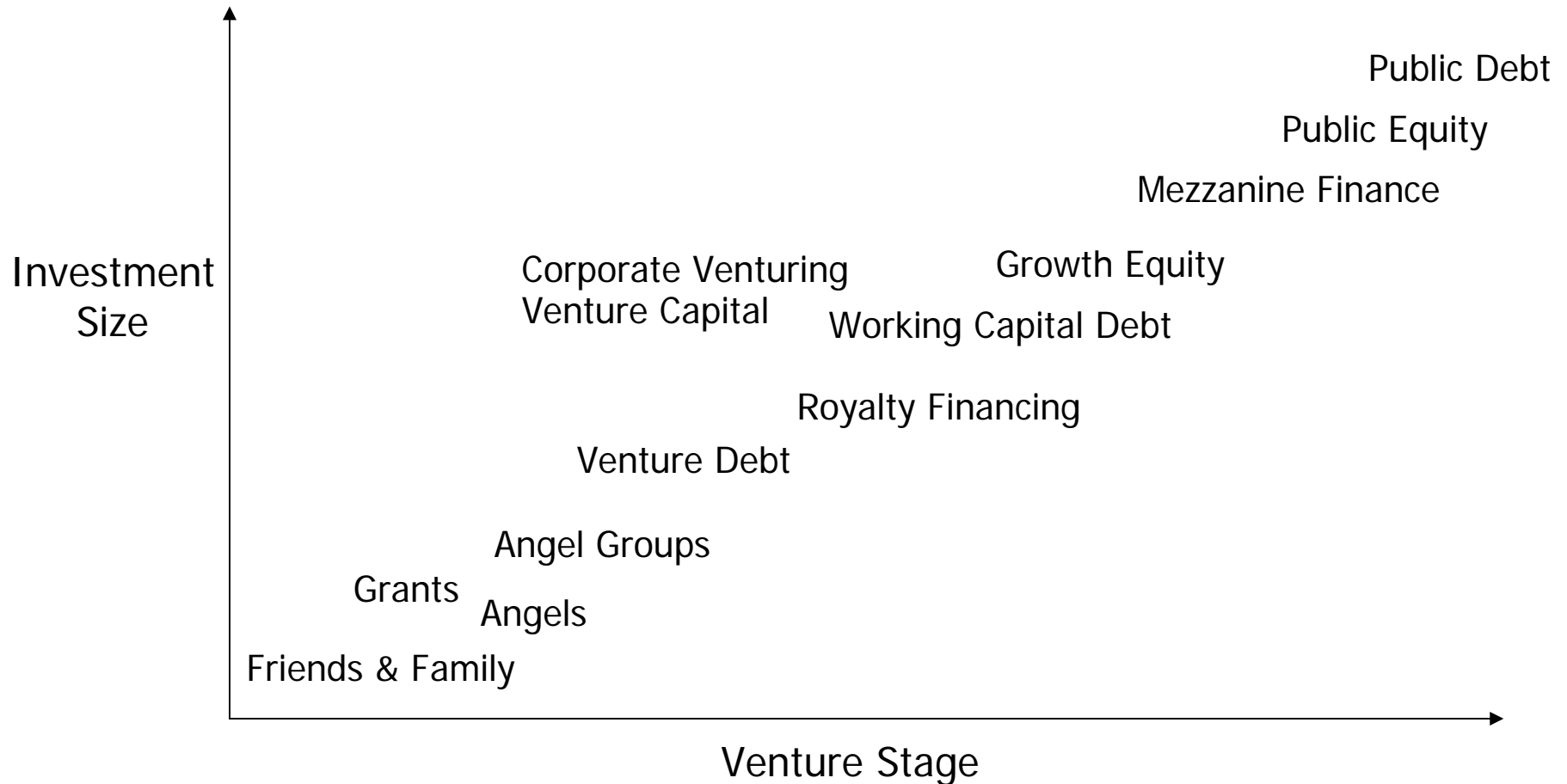


# Types of Capital – Big Business

- Growth Equity (Venture or Private Equity) – Equity
- Mezzanine Finance – Usually short term loans against expectation of Exit
- Public Debt – Bonds and Debentures (Notes) sold to the public through underwriting
- Public Equity – Equity sold to the public through underwriting

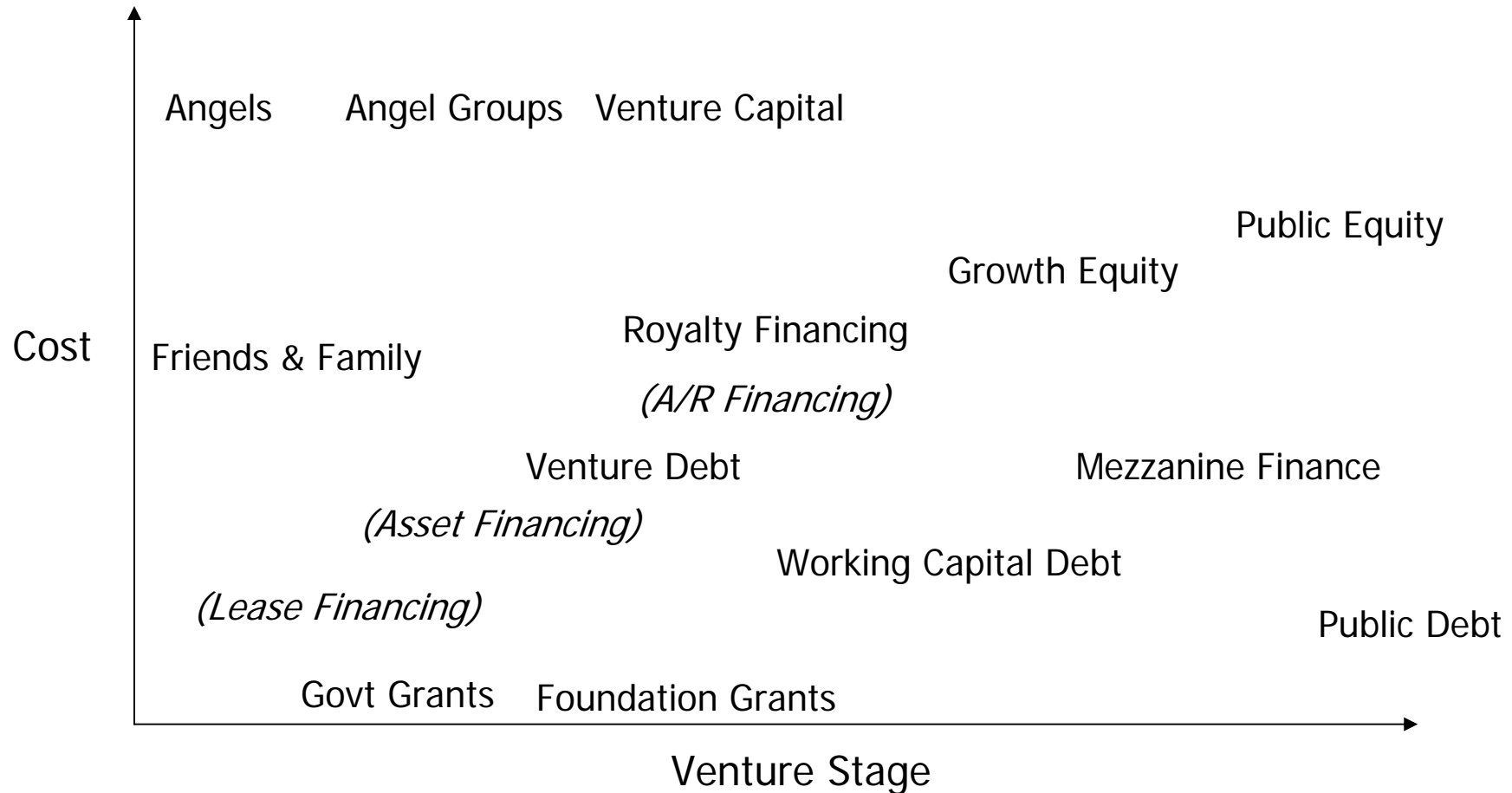


# Money Food Chain (Size & Stage)



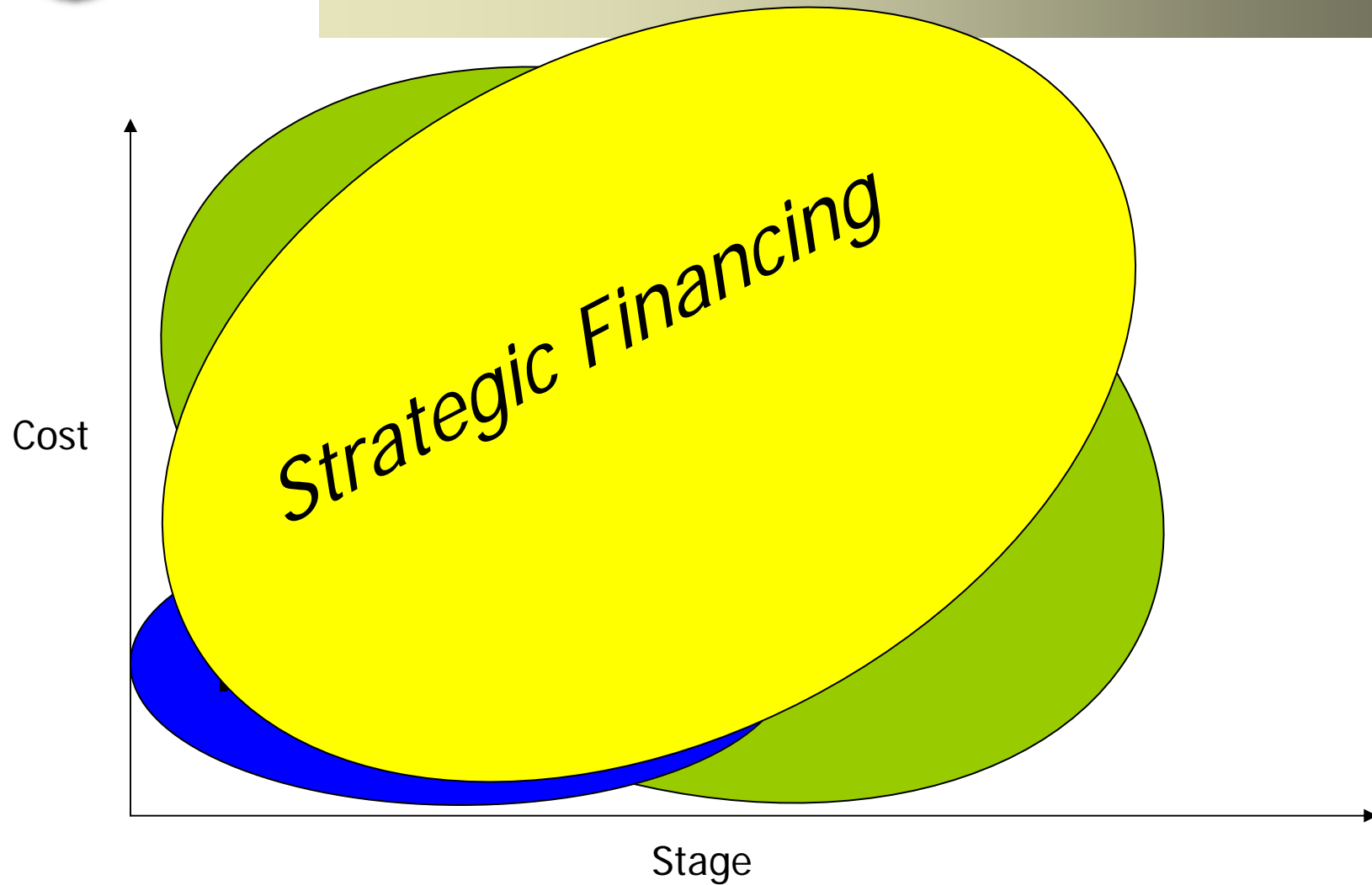


# Money Food Chain (Cost & Stage)





# Money Food Chain (Cost & Stage)





# Costs of Capital

## Equity Value – Impact upon Exit (Equity)

- Aggregate Return (multiple of investment “n”x)
- Internal Rate of Return (IRR)
- Balloon or deferred payments
- Preferences
- Participation

## Current Pay Obligations – Impact on Cash Flow (Cash)

- Royalties – Marked to sales
- Interest – Marked to outstanding balances
- Dividends – Variable but typically a percentage of Invested Capital
- Periodic Redemptions – Variable



# Issues by Type of Capital

## Investment Criteria - Part I

- Innovation
- Team
- Product Development and Venture Stage
- Existing Customers and/or Revenue
- Vertical or Industry
- Market size
- Likely Return Range
- Technology Risk
- Market Risk
- Competitive Environment
- Existence of Likely Acquirers



# Issues by Type of Capital

## Investment Criteria - Part II

- Total capital in Round
- Total capital needed until exit
- A+ Service Providers
- Historical Financials and Projections (GAAP)
- Geography
- Uses of Capital



# Issues by Type of Capital



## Deal Metrics

- Time to closing
- Investment dollar range
- Success rate – How narrow is the funnel?
- Accept/require Credit Support / Guarantees
- Total # of Similar Sources
- Affected by general economic conditions?
- Dry Powder / Secondary Capital Reserved?



# Issues by Type of Capital

## Control

- Directorships
- Special Consents and Negative Covenants
  - Hiring of Sr. Management
  - Additional Capital
  - Exits or Mergers
  - Change of Business
- Special Rights
  - Equity Calls and Puts
  - Rights of First Refusal (ROFRs)
  - Co-Sale Rights
  - Technology Rights



# Issues by Type of Capital

## Compliance features

- Audits and Financial Disclosure
- Working Capital Ratios
- Account Balances
- Milestone Reporting
- Inspection Rights



# Presentations and Questions

Presentations by:

[Dan Allred](#) - Senior Relationship Manager, Silicon Valley Bank

[Lucy McQuilken](#) - Director, Intel Capital

[Tim O'Loughlin](#) – Managing Director, Sempre Management

[Andy Clapp](#) – Managing Partner, Arctaris

[Bob Kispert](#) – Director, Massachusetts Technology Collaborative (MTC)

[Matthew Witheiler](#) – Sr. Associate, Flybridge Capital Partners



**Jeremy Halpern**

Managing Director

**Evolution Advisors LLC**

Tel: (617) 905-1893

384 Riverway, Suite 5

Boston, MA 02115

[jhalpern@evolutionadvisors.com](mailto:jhalpern@evolutionadvisors.com)

<http://www.evolutionadvisors.com>