

VENTURE CAPITAL

I. LIQUIDITY AND EXIT

A. REDEMPTION → OUTSIDE DATE VC WILL REQUIRE REDEMPTION

MAYBE 5 TO 7 YEARS, LONGER IN LIFE SCIENCES.

1. GET THE INVESTMENT BACK AND SOME RETURN, LIKE 8%.
2. WHAT IF 7 YEARS DOWN THE ROAD THERE IS MONEY BEYOND 8%
DOWN THE ROAD, VC'S WANT 8% OR THE FNV OR
THEIR INVESTMENT.

3. CO-SALE

B. REGISTRATION RIGHTS → GOING PUBLIC IS A TENUOUS PROCESS THAT INVOLVES THE FILING OF A REGISTRATION STATEMENT AND SCRUTINY BY THE SEC.

1. THE VC'S SHARES NEED TO BE REGISTERED IN ORDER FOR
THE VC TO SELL THE SHARES.
2. S-1: BIG FORM. S-3: SMALLER FORM ALLOWED FOR SUBSEQUENT
REGISTRATION.

C. PRE-EMPTIVE RIGHTS → RIGHT OF VC TO PARTICIPATE IN SUBSEQUENT ROUNDS → VC'S KEEP SIGNIFICANT DRY POWDER ON HAND TO PARTICIPATE IN SUBSEQUENT ROUNDS.

1. PAY TO PLAY: MULTIPLE MEANINGS → IF YOU (VC) DOESN'T
PARTICIPATE IN NEXT ROUND, THEY LOSE THE RIGHT TO
DO SO.
2. PARTICIPATE IN THE NEXT ROUND IN PROPORTION
TO CURRENT OWNERSHIP.

D. INFO RIGHTS → VC'S RIGHTS TO FINANCIAL STATEMENTS.

1. A PRIVATE COMPANY HAS NO OBLIGATION TO PROVIDE
INFORMATION.

E. BOARD → VERY NEGOTIATED.

1. BOARD FLIP → INCREASE THE SIZE OF THE BOARD SO THAT
THE SERIES C CONTROLS THE BOARD; OCCURS WHEN
SOMETHING BAD HAPPENS, SUCH AS FAILING TO REDEEM.
 - a) DRASTIC → HAPPENS INFREQUENTLY, BUT
VC'S THREATEN TO USE IT.
 - b) IF BAD EVENT IS CURED, THE BOARD CAN FLIP BACK.

F. PROTECTIVE PROVISIONS → THESE ARE VC CONTROL PROVISIONS

1. VC'S CAN BLOCK INTERESTED TRANSACTIONS AND EXIT
DECISIONS.

G. FOUNDER'S EQUITY → EQUITY FOUNDERS RECEIVE PRIOR TO FINANCING, VESTING SCHEDULE.

H. CONFIDENTIALITY AND NON-COMPETES → ALL EMPLOYEES AND CONSULTANTS MUST SIGN CONFIDENTIALITY, NON-DISCLOSURE AND INVENTION AGREEMENTS.

1. NON-COMPETES FOR KEY PEOPLE.

- I. TERM SHEETS → NON BINDING. BUT WHEN THEY'VE SIGNED IT, IT'S GONNA HAPPEN. NO SHOP WILL BE BINDING. TERM SHEETS WILL BE CONFIDENTIAL.

BUSINESS GOING FORWARD

- I. BOARD PRESENTATIONS → TAKE IT SERIOUSLY, PROVIDE INFO IN ADVANCE
- II. DOCUMENTATION → FOLLOW THE REQUIREMENTS IN THE DOCUMENTS.
- III. NEXT ROUND → IT IS NEVER TOO SOON TO START THINKING ABOUT THE NEXT ROUND.
 - A. THE PROCESS TAKES TWO TO THREE QUARTERS!
- IV. TIMELINE
 - A. UNDERSTAND WHERE IN THE LIFECYCLE YOU ARE AND WHEN YOU'VE MET A MILESTONE AND HAVE LEVERAGE.

FUNDING SOURCES

- A. ADAMS CAPITAL
- B. ZERO STAGE