VenLogic L.L.C.
1011 Boren Ave. Suite 318, Seattle, WA 98104 (206) 726-9656 (206) 726-1019 fax
Info@VenLogic.com

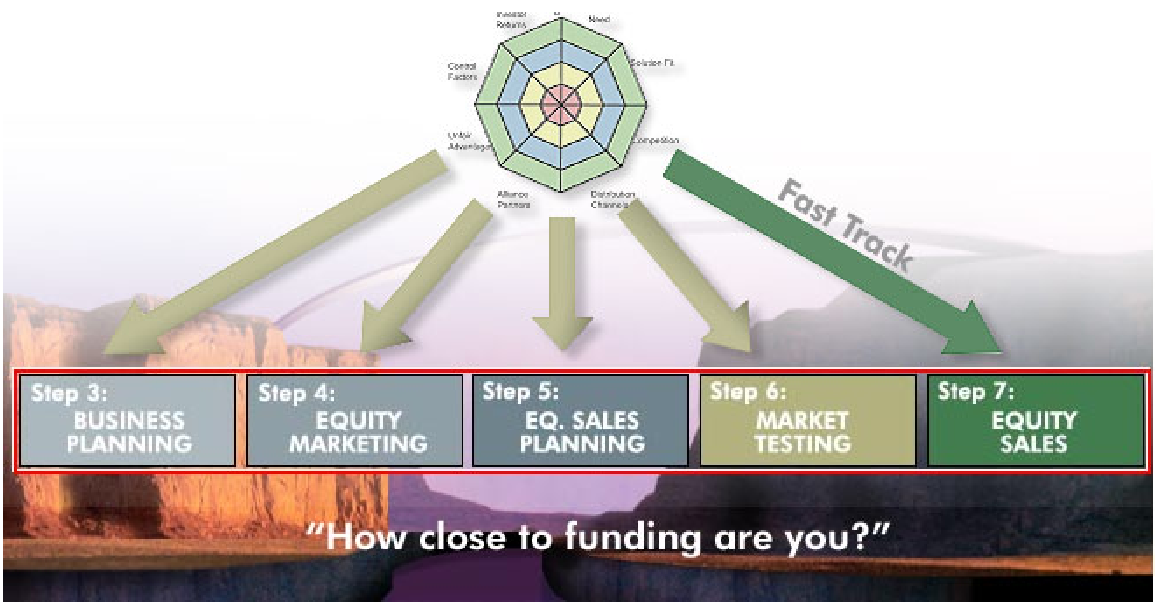
Structured Funding Program Introduction

based on the Equity Marketing Framework™

By Robert Kruse

"There IS a process to financing growth."

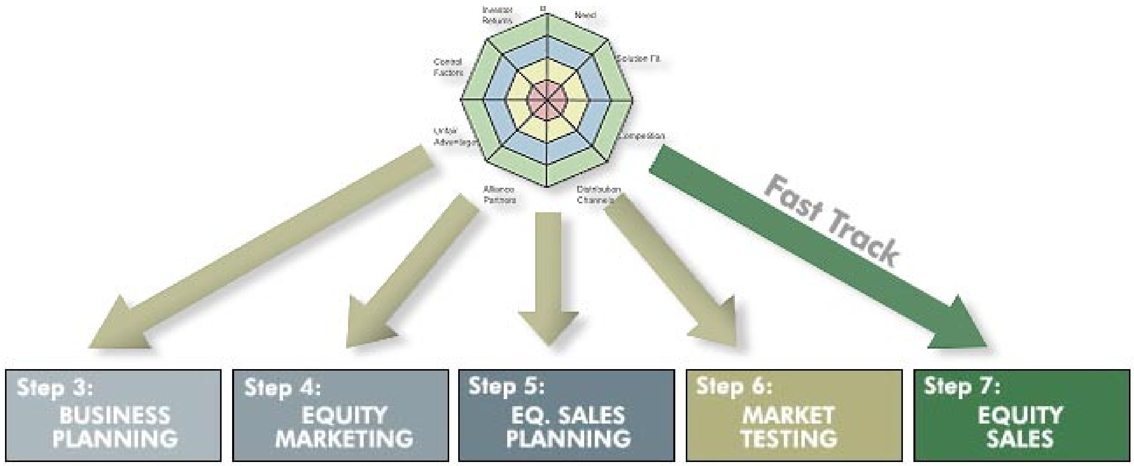
The VenLogic structured funding program provides a clear path to financing corporate projects in emerging markets, spinouts, or early-stage ventures. The new venture funding process is generally an unknown phenomena shrouded in mystery. Whether the capital is provided by an internal "treasury" budget or outside investors, the CEO must develop expertise in the science of building a solid "venture quality" business case, or risk making very costly mistakes.



Structured Funding Program

The VenLogic Structured Funding Tools and executive Programs enable CEOs to think and execute like an investor, so they can build a robust business case which enables them to more easily raise internal or external venture financing, thereby saving time, money and equity.

The VenLogic tool deliverables follow the VenLogic Structured Funding Program. Each step is part of an integrated solution designed to guide executives around the most common deal killing mistakes. This process is based on the Equity Marketing™ framework, where equity market planning, equity sales planning, market test assessments and project financing are now clearly defined steps along the venture financing journey.

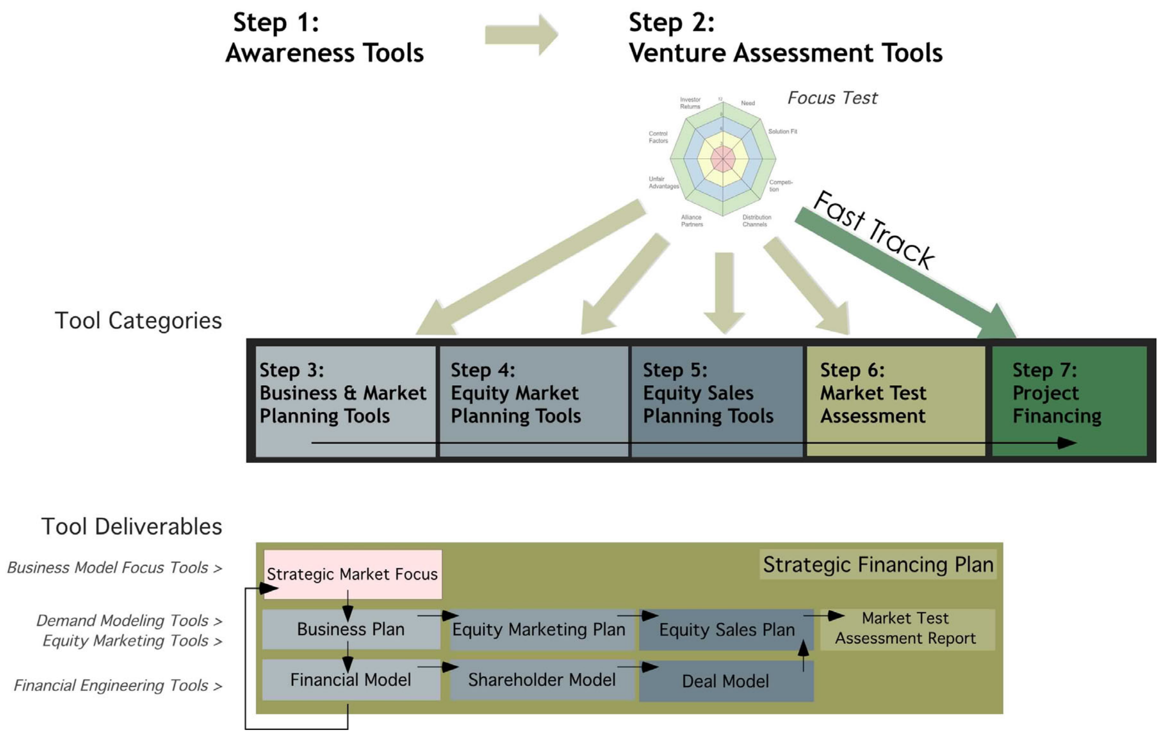


Step 1. Awareness Tools & Programs
The first step to success is getting exposed to key information that is not well covered in the professional texts and venture conferences, such as the Equity Marketing Framework and Venture Assessment tools used by investors. VenLogic provides a number of simple, inexpensive methods for busy executives to get exposed to this program. Web site, DVD Preview Edition, and awareness seminars are all provided to provide a general exposure that builds upon itself in later steps.

Step 2. Venture Assessment Tools & Programs
Everyone benefits from a quick assessment of the situation so that the "distance to financing" is clearly understood and agreed to by all parties up front. The entrepreneur soon gains appreciation for learning exactly how quickly a seasoned professional can decode their deal in minutes, for what may haven them taken man-years and thousands of dollars to assemble.

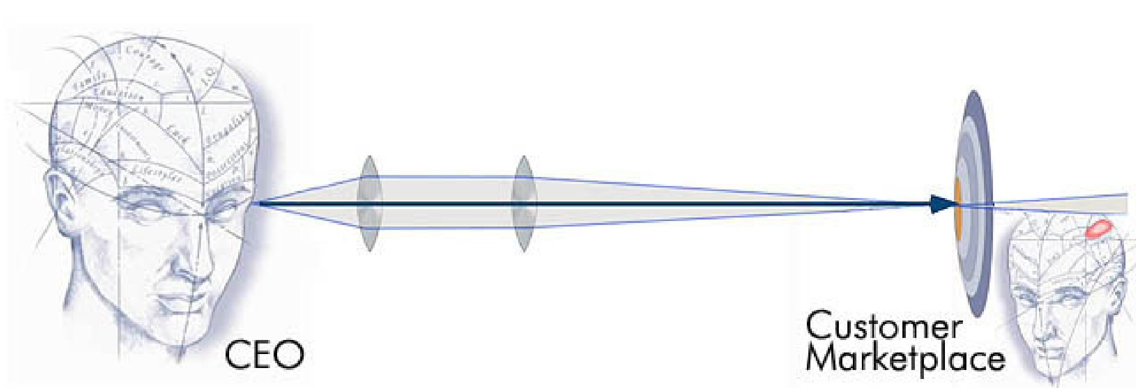
This exercise not only provides the CEO the opportunity to practice presenting their business case to an "investor," but unlike the real world - gives them the value of insight and detailed feedback as to what issues may be preventing them from success. Investors who request assessment reports, get the benefit of using the results of this effort to greatly accelerate their initial screening process, helping the company to raise capital faster.

Finally, this high value venture assessment enables all parties to get to work together to decide if there is chemistry and the right fit before embarking on a journey together. It enables the CEO to benchmark and gauge exactly what consulting value was added once the deliverables have been performed, enabling better cash management.



Steps 3a: Strategic Market Focus
Many companies seeking capital lack **Strategic Market Focus**, which results in limited budgets spread thin across multiple market segments. The company is usually not be strategically positioned well for success. From a branding perspective, the lack of focus creates confusion in the mind of the customer. Therefore, the brand loses meaning, lowering the ability to stimulate demand, which ultimately drops the return on investment.

Business Model Focus tools are a series of integrated exercises designed to help the company develop it's **Strategic Market Focus** plan. This plan uses the strategic positioning, competitive landscape and primary customer research to identify a unique word in the mind of the customer that it can own. Once Strategic Market Focus is identified, the CEO uses the core strategy to lead the team and guide the development of the business plan, financial model, and equity marketing plan with investors.



Steps 3b: Business Planning

Business plans are the most common and often misunderstood document in the fund raising process. The authoring quality is purely a function of the team's experience. The best plans tend to be written by the most experienced teams who have had the benefit of writing plans that were successfully funded over many years. There are several "off the shelf" programs which accelerate the development of a business plan, but the originality and completeness of the document plays a key role in differentiating the company's proposal on the investor's desk.

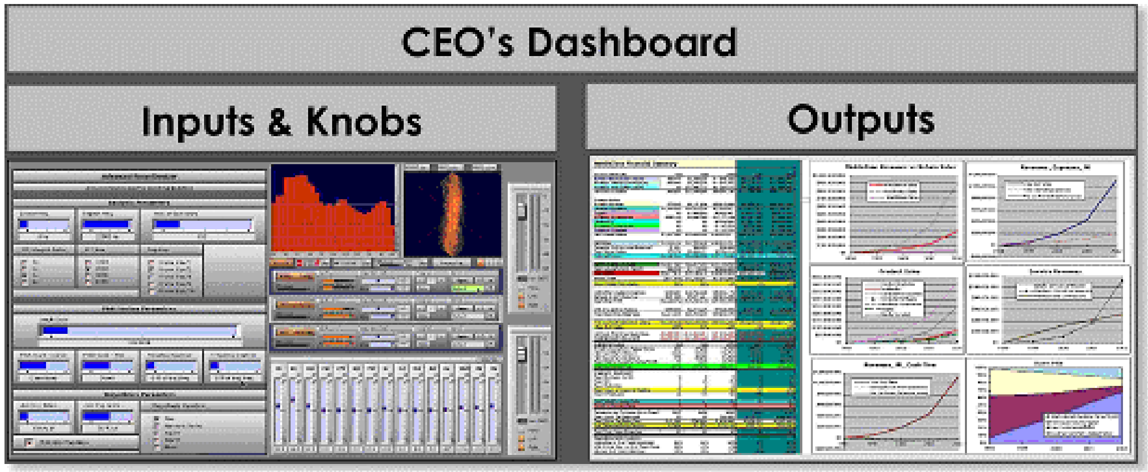
Business Planning tools are designed to help the company develop it's **Business Plan** faster and more in touch with investor's needs. Well developed Business Plans may be expanded into Operating Plans for tactical execution by department managers. Like all deliverables described, the Business Plan should always be developed by the management team wherever possible.

Steps 3c: Financial Engineering

Financial models are forward-looking spreadsheets that attempt to forecast the business opportunity anywhere from 3 to 10 years. Since most accounting software only addresses history, the company is on it's own to design a forecast that reflects its own unique business model. Again, there are several "off the shelf" programs which accelerate the development of a sound financial model. Sophisticated deals can invest tens of thousands designing a comprehensive macro-driven model over a period of 6 months or more.

Investors tend to use the summary data to scope the project, then dive into detail only after they've decided to enter into due diligence. So extensive financials are not usually required in the initial business plan, but should be provided later upon request. Larger funds with the staff may invest several weeks in modeling the company's deal independently during due diligence to see how both sides view the project. Entrepreneurs need to add this consideration to the VC's time estimate for "closing the deal."
Financial Model tools are designed to help the company develop it's **Financial Model** faster and more in touch with investor's needs. Most frequently omitted is the demand model, a critical sheet that includes top down and bottom up market sizing forecasts. This is a major hot-button for investors. The demand model is derived from the Strategic Market Focus in step 3a above, and is then integrated with a traditional forecast model. The Financial Model architect needs to create "hooks" for linking to the **Shareholder Model** and **Deal Models** later.

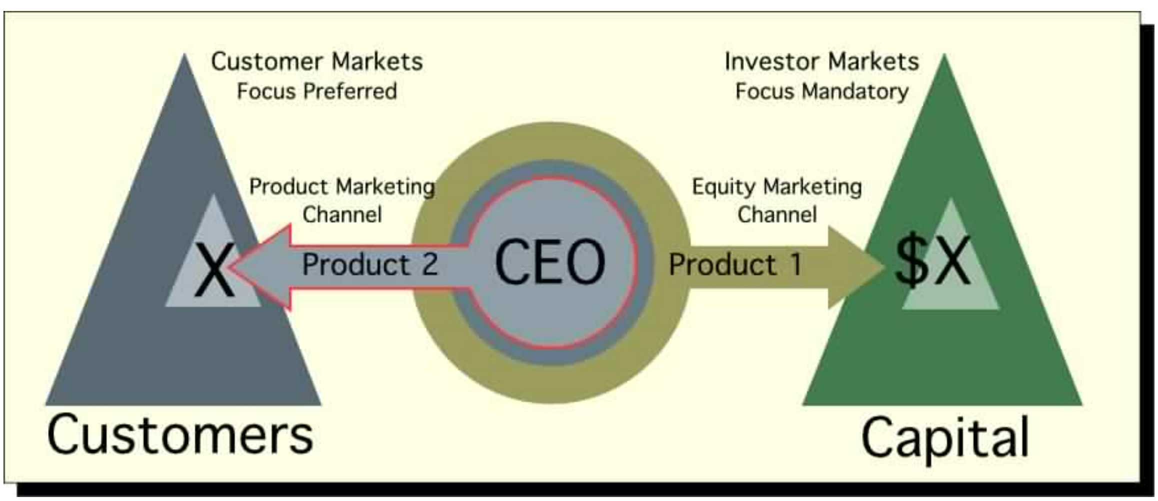
VenLogic provides guidelines for model architectures, data population, and scenario generation. Structure matters. The objective is to create an "Executive Dashboard" which becomes a key tool for the CEO and is managed over time for guiding the business.



Steps 4a: Equity Marketing Plan

The Era of Equity Marketing has arrived. It is no longer "best practices" to mine your Rolodex in order to spam a confidential business proposal to just any private equity investor. Like customers for products, investors too must be targeted more directly for everyone's benefit. The CEO's personal brand and the success of the fund raising effort depends on it.

So while the entrepreneur carries the responsibility of more precise "target marketing", the investor also carries the responsibility of "Capital Marketing" the counterpart to Equity Marketing. Just like Visa and MasterCard communicate their unique position and value proposition to the market, so must private equity investors. Companies can use the investor's investment and referral channel criteria to reverse engineer an equity sales channel to the equity customer, just like in product markets.



CEO Faces 2 Nested Marketing Problems

VenLogic provides several innovative programs designed to educate and assist executives in designing their **Equity Marketing Plan** that sizes and segments the private equity market. This criteria drives the design of Equity Sales channel maps described in Step 5a below. Venture Assessment Tools are the first product that provides more information on this topic. Equity Marketing programs are available through a consulting relationship and will be productized in the future.

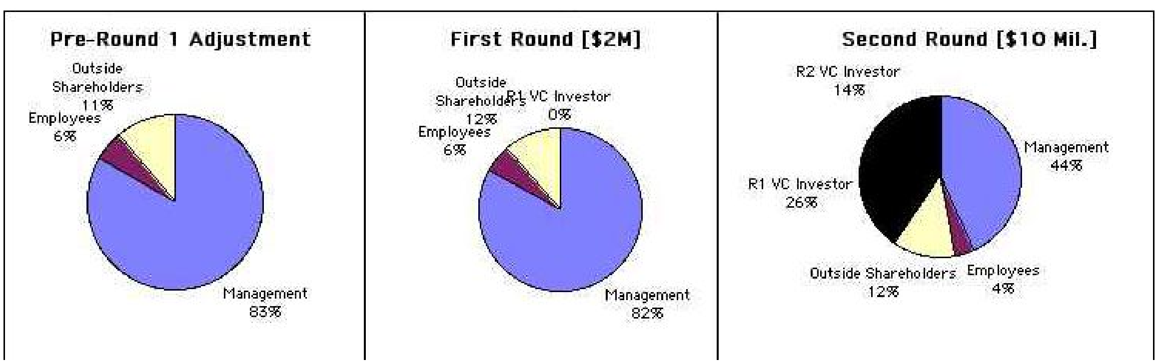
Steps 4b: Shareholder Model

This is another critical model that confounds many entrepreneurs, since it isn't taught well in MBA programs. The experience in designing these models tends to be exhibited by seasoned CFOs who have raised multiple equity rounds and have had close interactions with securities attorneys. Sound shareholder model and capital structures start to separate the "A" quality deals that get funded from the rest of the pack.

From an equity sales perspective, this is the most important model to the investor, for it contains the Equity Product Line. Here the company records the current and future shareholders of the company's equity, in essence forming the capital structure. Since the governance of the entire company rests on the voting rights based on ownership, this is the architectural equivalent to the foundation set into the earth before building the skyscraper.

While securities lawyers execute the documents and often assist in managing these records, it is always the company's responsibility to maintain historic records, as well as forecast investor returns for next stage financing. Founders who omit this critical model, do so at their peril. For it is the founders who have the most to lose and gain from proper development of this critical tool. Of course, major flaws in the design of the shareholder model (like say giving 20% of the company to Uncle Bob who skips town and doesn't add value), result in a restructuring or recapitalization of the company.

VenLogic provides unique advanced macro-driven models that tie into the "Executive Dashboard" by forecasting multiple rounds forward through IPO or liquidity event. When linked to the **Deal Model**, described in Step 5b below, it becomes a powerful negotiating tool that can have a multi-million dollar impact on the deal.



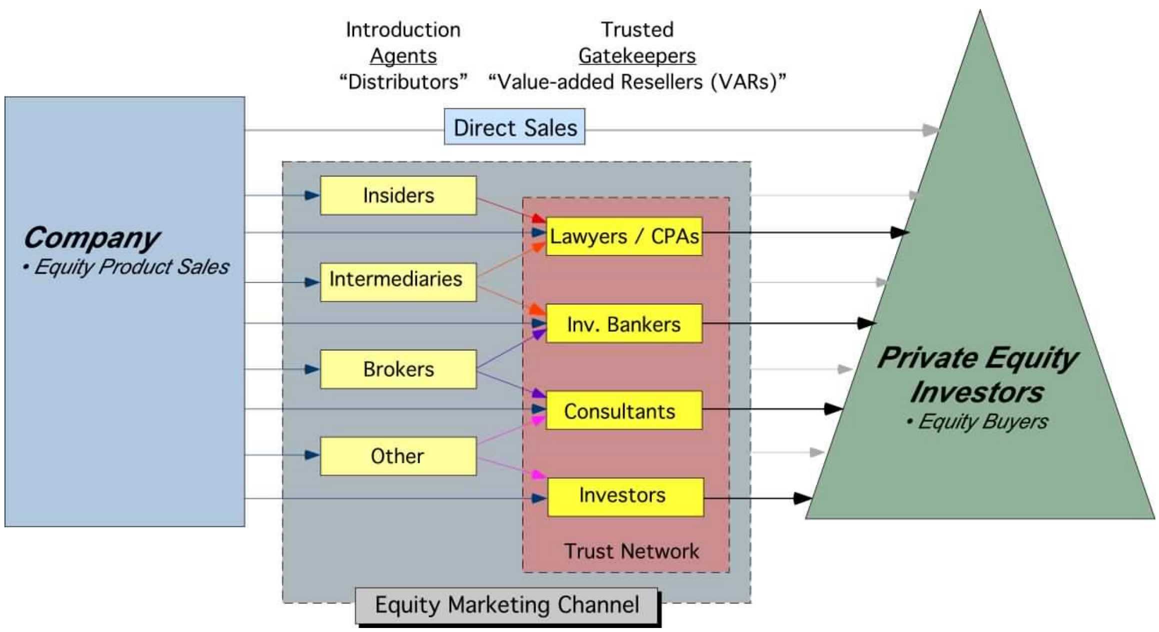
Step 5a: Equity Sales Plan

The Equity Sales Plan is another critical document the company should consider before starting the sales process. Just as in product marketing, it makes sense to focus the sales strategy before exposing the company and risking the loss of confidential information. This helps the company conserve limited cash, which can otherwise be spent very quickly on cross-country plane trips to unqualified investors.

This Equity Sales Plan is about the "go to market" strategy for the company. It takes the messages designed in the Equity Marketing Plan and tailors the sales messages to each investor sector properly. It often requires designing the equity sales channel, including a range of compensation methods for various "distributors" and "value-added partners" (i.e. gatekeepers) who are an essential part of the investor's buying process.

While certain channel partners (e.g. intermediaries, "broker / dealers") generate revenues from transaction fees for successful financing, these fees often affect the capital structure. Therefore the Deal Model should account for equity-based transaction fees to ensure that they understand how the fee structures affect all shareholders.

VenLogic provides tools for CEOs to design their equity channel maps and model various compensation methods of channel partners. VenLogic has also partnered with leading experts in private equity investing and sales channel design (e.g. Channel Ventures LLC), to assist CEOs in exploring a wide range of channel options before beginning the equity sales process.



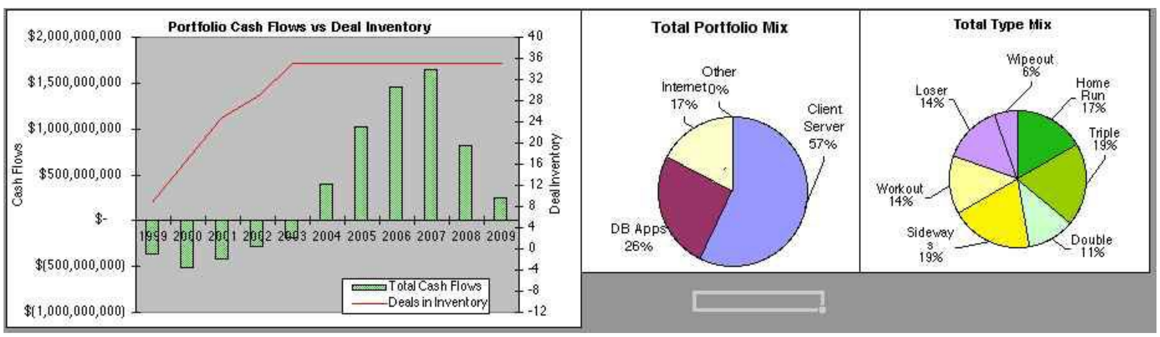
Step 5b: Deal Model

The Deal Model is another tool frequently skipped over by most CEOs raising capital, again to their disadvantage. Even a basic Deal Model can separate the "A" quality deals that get funded from the rest of the pack.

Just as certain investors will model the entrepreneur's business case before deciding to invest, the savvy executive will model the investor's fund model to decide if they should take their capital. When combined with the Demand Model, Financial Model, and Shareholder Model using macros, the Deal Model enables the entrepreneur to negotiate from a position of greater wisdom.

For example, a well developed Deal Model will easily note the differences between a corporate venture development company and an boutique seed venture fund. With some basic research, a few key interview questions, and analysis of the fund web site, the **Deal Model** can be adjusted to determine: operating budget estimates, next round hurdle rates, and minimum step ups required to meet the next round expectations.
To the CEO, this translates to understanding exactly what resources that can expect to receive in reality - versus what was offered to them during negotiations. Many funds are winding down because they were not able to get their portfolio companies safely to next stage funding. Pre-money, this analysis is critical to understanding if the investor is the right fit. Post-money, this analysis helps guide the CEO and their new investor partner along the same path as they repeat the Equity Marketing process again to the next stage investors.

VenLogic provides unique advanced macro-driven models that tie into the "Executive Dashboard" by forecasting multiple rounds forward through IPO or liquidity event. Integrated Deal Models become a powerful negotiating tool that can have a multi-million dollar impact on a venture financing.



Step 6: Market Test Assessment

Market Test Assessments are the CEO's final checkpoint equivalent to the "Red Herring" process in public equity markets. It's the last chance to verify all the pieces are in place and that they are ready to put their credibility on the line - since most CEOs know they only get 1 shot with investors. This critical step is the product marketing equivalent to a focus group that helps the CEO determine if the equity product is truly ready for sale, or if they need to go back to the kitchen and let the deal mature a bit longer.

Within the **Equity Marketing Framework™**, this is where the "whole product model" gets tested. We know from product markets, that if a product is incomplete; if the positioning is not uniquely differentiated; if the referral channel placement is wrong; or if the prices is too high or too low - the customer will not buy. Omitting any of the key aspects results in a Deal Killer. The key purpose behind the **Equity Marketing Framework** is to check for and eliminate **Deal Killers** through a facilitated Market Test Assessment program.

VenLogic's Market Test Assessment faculty partners are leading experts carefully selected for their experience in private equity. VenLogic works with the faculty to apply the assessment tools in performing a rapid venture assessment which can have a significant impact on the company in a matter of hours. Results are written up into a report that is for internal use, or may be provided to venture investors at the CEO's option.

About VenLogic

VenLogic provides Structured Funding Tools and executive Programs that enable CEOs to more easily raise venture financing, thereby saving time, money and equity. VenLogic's solutions are recommended by Silicon Valley private equity investors and blue chip partners, including NASDAQ Insurance, Morgan Stanley, Gray Cary Ware & Friedenrich, Zurich Scudder, Venture Analytics and many others.

VenLogic took its in depth understanding of the venture evaluation, development and management process to design a new category of venture assessment tools and consulting solutions for CEOs, private equity investors, and solution partners.

VenLogic brings over 30 original venture assessment tools that integrate with expert-led investment readiness programs for early stage companies and corporate projects. A tightly integrated tool-set enables a significant improvement in depth and consistency over the traditional initial screen by a venture investor. This accelerates the time required to provide comprehensive, critical feedback to executives seeking venture financing.

VenLogic's Structured Funding Program enables partners to develop a powerful new source of value-added offerings and revenues, which positions their brand of service high in the minds of the early-stage private equity market. VenLogic's model is unique in that it is the first program designed to generate revenues for its partners from the deal flow qualification process, normally an expensive cost center.

VenLogic also provides strategic equity marketing consulting services, a core component of the Structured Funding Program, for clients who need to implement key recommendations. VenLogic's careful tool design, methodical validation, and executive quality packaging of the venture assessment tools is just one example of its product marketing prowess applied in an extremely challenging marketplace.

VenLogic has been a trusted advisor to private equity investors and CEOs in Silicon Valley & San Francisco Bay Area, Pacific Northwest, Vancouver BC, and Melbourne, Australia since 1996. Since that time, VenLogic clients have directly raised millions in capital due in part to its services. Venture fund clients have invested over $130M in capital in telecommunications projects in Europe and Canada.

Managing Partner, Robert Kruse earned a communications patent, raised seed capital to launch a telecommunications startup in 1994, and co-founded a $130M corporate venture fund with Bechtel Enterprises in 1999. VenLogic team members are venture savvy executives with similar experience and investor relationships.

For More Information, contact Robert Kruse at: rkruse@venlogic.com

