

Corporate Venture Group Reins in Costs Associated with Complex Capitalization Tables

Allows group to save executive time, legal fees and IT resources

CUSTOMER CASE STUDY



Challenge: Venture-backed companies must master a growing web of complex capitalization information

Officially, Tom Kelly is the Vice President of SpringWorks, LLC, an enterprise he describes as a “captive venture capital unit” of its parent organization, Petters Group Worldwide, a family of companies that includes such well known brands as Polaroid, Fingerhut and Sunbeam. But in practice, Kelly also serves as the acting CFO for SpringWorks and many of its portfolio companies.

Ownership in each of these companies is organized within complex spreadsheets, called “cap tables,” that range in size from thirty to more than 530 investors, founders and employees with ownership records across multiple classes, including common stock, convertible preferred stock and employee stock options. In addition to helping SpringWorks satisfy its legal, financial and governance responsibilities, the capitalization tables play a critical role in the ongoing financing process. In fact, they are often the focal point of the initial valuation discussions.

“We present them to potential investors,” says Kelly, “to show them what their ownership percentages would be.” Effective capitalization tables must not only reflect current ownership status, but demonstrate future scenarios accurately, such as the impact of converting preferred stock to common stock or the consequences of stock option exercises. SpringWorks knows their capitalization tables must be ready for investor inquiries at any time and they must be 100% accurate. Any delay or any error, no matter how small, could raise the level of scrutiny and obstruct otherwise smooth deliberations.

The challenge only grows over time. Each year, the ownership records become more elaborate. “Many of our companies have gone through more than one round of funding,” says Kelly. “And in my experience, capitalization tables only get more complicated with each round, as new owners and options get added to the mix.”

To manage their capitalization information, Kelly needed a solution that would:

- ◆ Centralize all records so that changes in one area are reflected everywhere
- ◆ Generate capitalization tables automatically from the ownership records
- ◆ Retain formulas when data is exported to Excel
- ◆ Provide an audit trail of related corporate governance records
- ◆ Allow easy access by senior management and the Board of each portfolio company
- ◆ Conform to Petters Group’s commitment to “on demand” technology

Solution: Use Corporate Focus to manage capitalization information and organize related governance documents

SpringWorks needed a centralized, secure solution that could manage its complex ownership records while also serving as a repository for crucial governance documents, such as contracts, leases, board minutes and other legally required information. Corporate Focus satisfied the need for easy access to accurate corporate records – without creating more work or IT involvement.

When Kelly and his colleagues looked at competing systems, they found that most fell short of their expectations. “None of them encompassed the ownership capabilities of Corporate Focus,” says Kelly. In addition, no other system combined corporate governance tracking and complex ownership tracking. Most were lacking the complete set of requirements and



KEY BENEFITS

- ◆ Simplifies legal compliance and investor relations by centralizing complex ownership records and corporate governance information
- ◆ Facilitates faster, smoother financing by giving stakeholders and potential investors rapid access to accurate ownership data
- ◆ Reduces outside legal fees related to capitalization table management
- ◆ Prepares SpringWorks for future deals, investments, due diligence
- ◆ Avoids missed contract and filing deadlines with email alerts

CorporateFocus™

◆ Corporate Governance Records

Practice good corporate governance with immediate access to officers, directors, and other entity information

◆ Stock Plan Administration

Reduce the complexity of stock and option transactions and create flexible capitalization tables

◆ Online Minute Books

Never lose a minute book with online governing documents and minutes

ABOUT SPRINGWORKS

SpringWorks, LLC was created to identify, produce, and invest in emerging technologies that make it possible for Petters Group Worldwide™ to create first-to-market and/or differentiated value to consumer-branded products and services with an emphasis on consumer electronics. Petters Group Worldwide is a recognized leader in creating, developing and investing in companies that manufacture, procure and market merchandising solutions for key growth markets. Petters' core portfolio includes a growing list of retail and wholesale companies operating in the United States, Brazil, China, Japan, Korea, Mexico, and Spain.

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required a Virtual Private Network (VPN) that limited accessibility, making them unavailable, for instance, to the executives at the portfolio companies.

Once SpringWorks selected Corporate Focus, implementation was swift. It took a few weeks to input the first company's data, as the staff learned the new system. With experience, the pace accelerated and within just two and a half months, SpringWorks had all of its portfolio companies' ownership and governance records online. Moreover, since SpringWorks chose to use Corporate Focus via Two Step's "on demand" hosting facility, they were able to log in and get started less than 48 hours after they had signed up.

Results: Cost savings plus new "one stop shopping" for corporate governance information

Savings in legal fees and executive time

SpringWorks immediately saved on outside counsel legal fees. Before deploying Corporate Focus, SpringWorks required a paralegal at each portfolio company's law firm to update its capitalization tables. In some cases, the updates would cost as much as \$200/hour and each major change represented at least five to eight hours of work.

Corporate Focus also makes more efficient use of valuable executive time. Today, Kelly can provide top executives of each portfolio company direct access to the unique information they require. Because the system is browser-based, authorized executives can log in from their offices, when they're traveling or from their homes. And Kelly himself is much more productive. Based on the number of inquiries Kelly gets on a regular basis for this type of information, he estimates that having the information online "saves at least four to five hours a week of my time" that would have been spent responding to executive, board member or investor requests.

Deal-making has also become easier and less costly. By consolidating the ownership records – along with all of the governing documents, minutes of meetings, corporate filings, contracts, intellectual property records and other legal documents – into a single system, Corporate Focus can serve as a virtual data room for each of the portfolio companies. This can help accelerate the pace of future deals.

Centralizing contracts and filings in one place allows SpringWorks to take advantage of Corporate Focus' automated alert feature. Through the program, appropriate SpringWorks personnel get email alerts regarding lease expirations, protecting the company from expensive and unnecessary automatic renewals on laptops and other capital equipment. Alerts are also set for tax filings – a great convenience when meeting deadlines for different companies in different states. Other personnel get reminders regarding patent filing deadlines and upcoming board meetings.

One consistent resource everyone can use quickly

Consistent with Petters Group's "on demand" philosophy, SpringWorks elected to host Corporate Focus offsite with Two Step's partner, one of the world's leading managed hosting companies. "We cut out the installation, server, software and maintenance costs," says Kelly. "And I believe our data is actually more secure because it's maintained by more IT staff that are overseeing more servers than we would manage in-house. Furthermore, we did our due diligence on Corporate Focus' hosting partner to ensure that it was a reputable organization capable of meeting the service level agreement requirements that we sought."

Most importantly, Corporate Focus is a "one-stop shop," Kelly says, "with a clear structure for loading data in a consistent manner. It's a great foundation to build on." Its logical structure makes it easy for authorized stakeholders to find all relevant governance documentation in one centralized location. "We use Corporate Focus as a wealth of knowledge," says Kelly.

Delivers more value than expected

Although SpringWorks deployed Corporate Focus to control costs and reduce time spent on searching, gathering and compiling information, the program has done a lot more than save time and money. Corporate Focus' ability to absorb a wide range of governance documents, its intuitive structure, and its supporting features – such as contract management and email alerts, help everyone respond rapidly to emerging opportunities.