

COMMONWEALTH CAPITAL VENTURES

Boston Entrepreneurs Network

May 1. 2007

Experienced investors guiding outstanding
entrepreneurs from startup to success

The logo consists of a horizontal bar divided into two sections. The left section is light gray and contains the word "COMMONWEALTH" in white, all-caps, sans-serif font. The right section is dark blue and contains the word "CAPITAL" in white, all-caps, sans-serif font. A small, dark blue triangle points downwards from the top of the bar, positioned between the two sections.

COMMONWEALTH CAPITAL

Commonwealth Capital Ventures IV

FUND: ~ \$500 million under management

CCV IV - \$250 million venture capital fund

STAGE: 75% early stage / 25% venture growth

SECTOR FOCUS:

- Software and services
- Communications technology
- Instruments and systems

GEOGRAPHY: Northeast US

MODEL: ~25 companies
\$3-5M initial investment, 15-30% ownership
Lead, active investor; board seat

Experienced, Cohesive, Stable Team

Commonwealth Partners:

- Mike Fitzgerald
- Jeff Hurst
- Steve McCormack
- Justin Perreault
- Elliot Katzman

Team highlights:

- 75+ years combined venture investing experience
- 10+ years together at Commonwealth Capital
- Cohesive team with strong chemistry and reputation
- Proven organization, model, and results

What We Do...

Guiding Outstanding Entrepreneurs From Startup to Success



Securing critical Internet communications

Acquired- \$335 million

NEUROMetrix™

Revolutionizing neurological testing

IPO- \$460 million



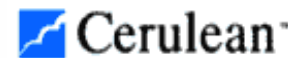
Game-changing investment management software

Acquired- \$250 million



Building the optical Internet

Acquired- \$175 million



Wireless applications for public safety “first responders”

Acquired- \$150 million



Breakthrough Internet collaboration software

IPO- \$250 million



Thwarting hackers with server “Lock-Down”

Acquired- \$80 million



Transforming voice communications for the IP network world

Acquired- \$100 million

Experienced Team

Elliot Katzman
General Partner

Joined CCV Dec. 2006

4 years in VC

> 20 years in technology entrepreneurship

"It's easy to start a company but hard to build a great business. Elliot helped me build SolidWorks from a startup into what has become a \$300 million business."

Jon Hirschtick, Founder and CEO



Epoch Systems



Prior Experience:

Kodiak Venture Partners, General Partner

MyTeam (now Active.com), CEO

Atria Software, CFO

SolidWorks, SVP and CFO

Epoch Systems, CFO

Prior Investments:

Groove Mobile, Mindreef, Newforma, SpaceClaim, Watchfire, Wis.dm

Education:

BSBA, Salem State College

Team

Business Model

Economics

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COMMONWEALTH CAPITAL



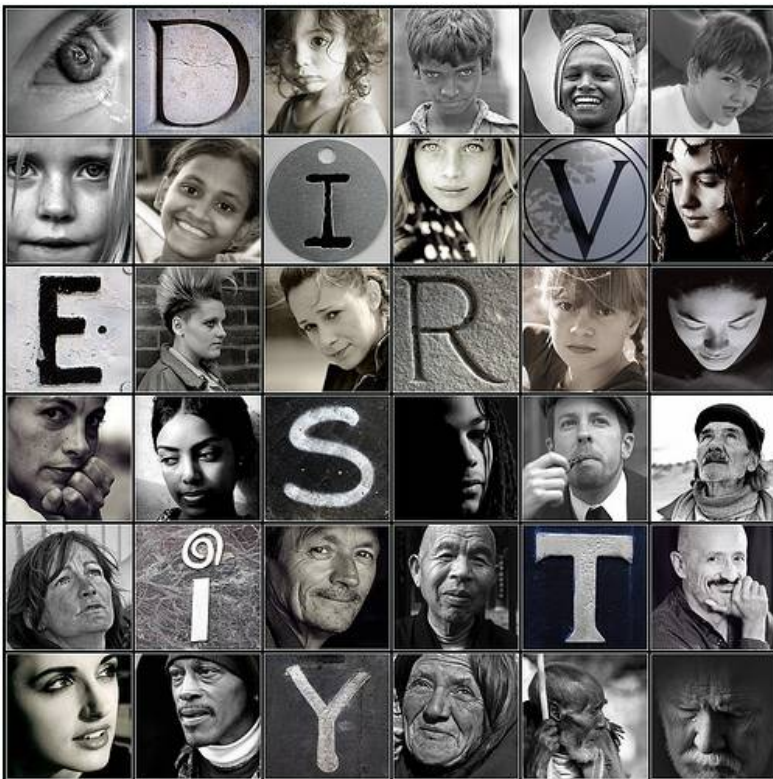
*Great Idea + \$ =
Success*

Team / Business Model / Financials

Assuming you have.....

- Defined **Market Opportunity** and why there is a need for Company / Product
- Defined **Product** and how it will solve problem
- Defined **Distribution Strategy** and how company will **market** and **sell** product
- Focus on
 - **Team** and why they are capable to succeed
 - **Economics** and how to **make \$**

Businesses Are About People



- People are your employees
- People invest in your business
- People buy your products
- Buying is a human behavior

"I'd rather have an A management team with a B idea, than a B management team with an A business opportunity".

- author unknown

Team is MOST IMPORTANT !!!

- Startups NEVER go in straight line from concept to liquidity.
- Management needs to constantly “bob and weave”, assess and reassess
- Good people work for / with good people.
- **What defines a Good team?**

Thinking about what makes a good team.....

- Is there a Domain Expert – someone who truly understands the customers PAIN?
- Is there at least one world class individual ?
- Have members been part of a success before?
- Will individuals create a positive culture?
 - High achievement
 - Mutual respect / trust
 - Know what it is like to win?
- Will initial team be able to recruit the needed talent to build the business
- Are all skills properly represented and balanced?

Hiring Is The Most Important Thing We Do

- Don't focus exclusively on functional expertise i.e. Engineering, Marketing, Sales, Finance
- Think about Leadership vs. Management
- Hire People Who Scare You With Their Competence
- If You Feel You Are Still Needed, Your Team May Not Be Strong Enough

Why are Financial Statements Important

- Making \$ is important
- Financial statements provide an opportunity to make your company come alive
- Translate product / market and distribution success into financial story
- Financial statements and **ASSUMPTIONS** allow you to demonstrate YOU UNDERSTAND HOW TO MAKE \$

Assumptions

- Understand every # is WRONG from an absolute perspective
- Relationship of #'s is important
 - Unit sales is a function of market demand and sales productivity
 - Sales expense relates to revenue
 - Service / subscription annuity is function of installed base
 - Etc.
- Explain what you know **and what you don't know**
- Challenge your assumptions - You can easily convince yourself that assumptions are realistic.
- Don't make assumptions that essentially say "all the trees have to fall north to be successful"
- Be Conservative but on realistic side
- Discuss opportunity for expansion and upside !

Perhaps even let investors find the upside!

Identify Key Metrics

- Cash is KING! Focus on cash NOT accounting
- How much cash will it take to bring product to market?
- How much cash to build business post release to breakeven?
- What is value of a customer - how much \$ will customer pay over 5 years compared with cost of sales and support ?
- What are switching costs?
- What is sales productivity model
- Is there an annuity?
- Etc.

Business Model Orientation

- Discuss Business model – not just the #'s
- *Allow investors to “feel the business”*
- Discuss leverage points to business
 - Annuity model for service - most software companies
 - Addictive nature of product - i.e. config. mgmt.
 - *The more you use it, the more you need it, the more you use it.....*
 - Long term value proposition - i.e. storage mgmt.
 - `Pain with switching...

Business Model Discussion

Can you guess what business model is for –

- Loews Theatres
- Avis Car Rental
- Google
- Active Network

Go deep on business model discussion

Example Movie Exhibitor –

- Lose \$ on movies – make \$ on concessions
- Average concession sale is \$.xx / person
- Most people go to movies as a couple
- Average point of sale is \$ Y
- Repeat purchases are...

Target Model

	<u>FY'06</u>	<u>Q1'07</u>	<u>Target</u>
Gross Profit Margin	93%	90%	88-90%
R&D	27%	22%	18 -20%
Sales & Marketing	50%	46%	42 -44%
G&A	<u>9%</u>	<u>9%</u>	<u>8 -9%</u>
Operating Income	8%	12%	20%
Effective Tax Rate	1%	17%	36 -38%

What is communicated from this model?

What was communicated from model shown?

- Profit expansion in most recent quarter compared to last period
- Most recent gross margin is higher than forecasted
 - Build credibility right away
- Leverage in Operating Expenses as company grows
 - Principally R&D and G&A
 - Minimal in sales expenses (variable)
- Explained normalized tax rate - credibility

Thank you –

Questions ?