BOSTON - LONDON - ZURICH

How to Wind Down a Fund and Wind Up with Cash

CASE STUDY - VCMW1

Service:
Private Equity Advisory

Client:
First Tier Limited Partners (LPs)

Requirement:
Take-over and close a fund

Situation:
A group of Americas' most respected commercial banks and pension funds were principal LPs in a Venture Fund focused on early stage investments. The Fund was nearly ten years in operation and had multiple General Partners. There were few remaining investments, all suspect as to their operational capacity and investment return potential. In addition, the portfolio companies had no availability to additional capital.

There had been little communication between the General Partner (GP) and the LPs since management fees ceased. Governance of the Fund was questionable and there was a broken relationship between the LPs and multiple GPs, particularly after determination of violations of the shareholder agreement.

The remaining invested assets had little expectation of continuing as operating firms or of providing return to the partnership. Because of prior experience utilizing Semaphore's Technology Diligence and Private Equity Advisory services the LPs engaged Semaphore as General Partner with the obligation of dissolving the Fund.

Scope:
Staffing: 3 calendar months
Deliverable: Management of the Fund, analysis of the situation, recommendation then implementation of options.

Discovery:

Utilizing the tested Semaphore Solution, Semaphore provided the LPs independent assessment of the Fund and portfolio through a coordinated entry plan after the withdrawal of the incumbent General Partners. The Fund could not produce books or records and had not properly filed taxes for two years. It was discovered that there were communications to the Fund from a Federal Regulatory agency, including a subpoena compelling documents.

Outstanding bills exceeded available assets by two to one. Cash assets were distributed among multiple accounts in several names, including the management company of the most recent GP and a defunct portfolio firm. While a majority interest of the LPs hired Semaphore, it was later discovered that more than half of the 30 LPs had not been contacted in years.

Outcome:
1. Semaphore gained the consent of LPs to dissolve the Fund.
2. Books and records were recreated and taxes filed.
3. The wind down processed commenced resulting in:
   - The propriety of payables was challenged as to Fund obligation resulting in rejection of 50% of the total claimed.
   - Settlement of remaining outstanding payables averaged 8 cents on the dollar.
   - Received assurance from Federal Regulators that the LPs were not targets.
   - One closed portfolio company's assets were sold to another fund.
   - The LP position in an ongoing portfolio company's shares was sold to a common investor at market value.
   - Remaining funds, in excess of fees for dissolution, were distributed to the LPs.
   - The Fund was dissolved without resorting to bankruptcy proceedings.

Semaphore

B O S T O N - L O N D O N - Z U R I C H