

## Regional Innovation Acceleration Network

The network of venture development organizations driving America's economy—**SMARTER. FASTER. FORWARD.**

### Venture Development Organization Profile

June 2011

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#### Overview

i2E, Inc., which stands for *Innovation to Enterprise*, is a 501(c)(3) private not-for-profit corporation focused on growing high growth companies in Oklahoma and making a positive impact on the state's economy. Its stated mission is "nurturing entrepreneurs who are building high growth companies in Oklahoma." i2E achieves its mission by working directly with entrepreneurs, researchers and companies to help them commercialize technology, launch and grow new businesses, and access needed capital.

To understand the history of i2E, one must first understand the business climate of the State of Oklahoma through the 1980s and 1990s. First, the economy had experienced a significant negative impact by the large oil and gas crash of the 1980s. Oklahoma was predominately an oil and gas state at that time with minimal industrial diversification. As a result of the crash, the Oklahoma Center for the Advancement of Science and Technology (OCAST), at the time a quasi-state agency established to foster innovation in existing and developing businesses in Oklahoma, was created by the State Department of Commerce. In other words, that economic crisis was the impetus for the State of Oklahoma to become proactive and organize its economic development efforts.

In addition, in the mid-1990s, Oklahoma voters passed two state questions allowing public universities to take equity in technology companies or the spin-outs that they created. This resulted in the development of technology transfer offices at the University of Oklahoma and Oklahoma State University.

As a result of approximately 10 years of OCAST investments in research and technology, along with the energizing of the universities' entrepreneurial efforts, there became a general awareness and belief that more needed to be done to assist technology-based entrepreneurs in the state. The private sector entrepreneurs that had started companies indicated that the lack of an innovation system to provide support and assistance to their endeavours was limiting their growth and success.

i2E was first conceptualized in 1997 when OCAST recognized that entrepreneurial development needed to be supported in the State of Oklahoma. Ultimately, approximately 40 private and public sector business leaders were coalesced around a common vision: to create an entity that would function as a venture development organization. This effort was led by OCAST working with the state legislature to access funding to support a non-profit entity that would be tasked with supporting start-up high growth companies.

OCAST undertook a national bid process for a management entity, and ultimately a group of private sector business leaders, with significant support from private sector business leaders, entrepreneurs, civic leaders, and universities representing every quadrant of the state, formed the Oklahoma Technology Commercialization Center (OTCC, now known as i2E) which was awarded the contract. OTCC was truly a grass-roots effort that was designed and built around what local individuals thought would work in the region based on their knowledge of the regional dynamics, personalities and the key gaps that had to be overcome. From the beginning it was a true public/private partnership.

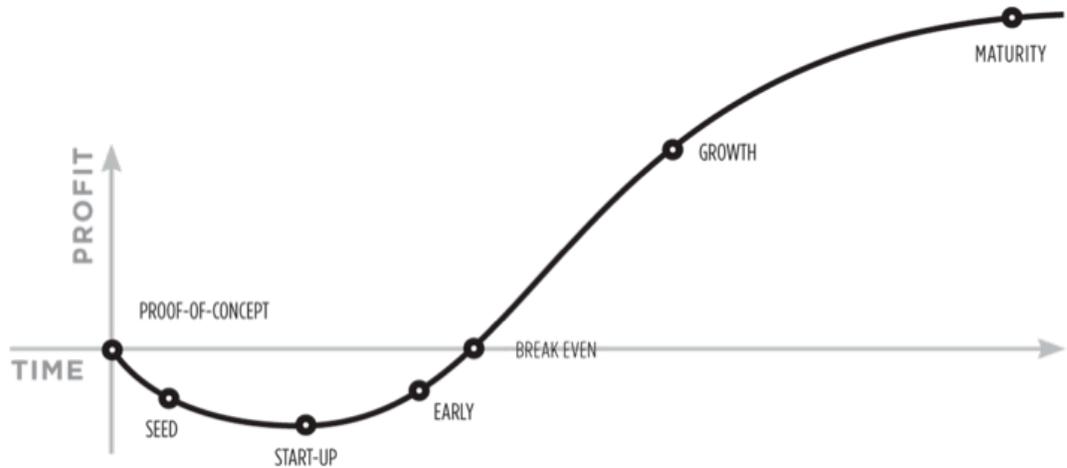
In the beginning, i2E was targeted on helping high growth entrepreneurs, viewing itself as an organization focused primarily on advising entrepreneurs on building business plans and working with investors. However, by the second year, i2E realized that the real challenge for entrepreneurs was risk capital. What was needed were angel and pre-seed funds to help develop an entire financial continuum. So by 1999, i2E turned its efforts towards developing risk capital within the State of Oklahoma.

Today, i2E provides innovators and entrepreneurs with a suite of comprehensive services and capital programs designed to take a newly developed technology from the earliest concept, through validation and commercialization, and to business launch and growth. The organization serves high growth companies throughout Oklahoma.

When i2E was first created, it was solely funded by the State of Oklahoma through an annual contract. As recently as 2008, i2E remained 90 percent state supported. Today, the organization's operations are supported 60 percent by the state and 40 percent by other sources of revenue, which includes foundations, private corporations, and the federal government. The overall annual operating budget for i2E is approximately \$4 million, and the organization has approximately \$14 million of investment capital under management available to deploy.

Throughout its history, i2E has interacted with 2,000 companies, served 500 companies through its staged access to capital program and helped 150 clients to attract nearly \$400 million of private capital. Survey data indicates that these companies have

generated \$200 million in revenue and created nearly 2,000 jobs with an average salary of \$65,000 per year.



## VDO Programs and Services

### Risk Capital

It is important to note that there is less organized capital in Oklahoma today than there was 10 years ago. While the State of Oklahoma attempted in the 1990s to alleviate this situation by creating a Fund-a-Fund Program it has had little success creating funds in the state. The lack of risk capital has been further exacerbated by the dot.com bust and the latest market downturn. In states like Oklahoma the lack of risk capital is very apparent. A number of older indigenous funds have not been able to close new funds, and there is no later-stage venture capital industry in the State. i2E is focused on providing funding at very targeted stages of the capital lifecycle to help Oklahoma's technology and high growth sectors through the following three programs:

**Technology Business Finance Program (TFBP):** i2E's staged capital approach begins with its signature program, the Technology Business Finance Program (TBFP), which is a proof of concept fund available to Oklahoma start-up companies. The business must be a technology-based company, and classified as a small business based on SBA guidelines, with at least 50 percent of the employees or assets located in Oklahoma. The company must also be at the early development stage of commercializing a technology, and have a business model or target market that exhibits significant growth potential. The fund is awarded in \$100,000 to \$150,000 increments. It is designed as a catalyst for private investment capital, and has shown to be pivotal in start-up funding.

The program is funded by the state legislature to specifically address proof-of-concept and pre-seed stage capital needs of high growth and technology-based businesses. i2E receives approximately \$600,000 to invest through an annual contract with OCAST. The TBFP is also partially funded by entrepreneurs who pay back to the fund each year. The awards under this program are not grants or equity investments; rather they

are unsecured loans to companies. Companies receiving awards agree to a repayment provision at maturity of two times the original investment funded by the program. In addition, all awards require a minimum one-to-one cash match. This cash must be in hand or committed in writing by private investors to be released coinciding with receipt of Program funds. The fund size at any given time is about \$1.2 million. Approximately seven to ten financings of \$100,000 each are available annually. When companies pay back their awards, the money rolls back into TBFP to fund additional investments. This process has helped to leverage limited state funds and has enabled TBFP to be partially self-funding.

One important feature of the TBFP is the high level of advisory services that is provided to both applicants and recipients. Applicants of the TBFP fund receive assistance from i2E commercialization services to ensure entrepreneurs have a thorough business plan to align with their technology, and to effectively use and leverage potential TBFP funds to reach business goals and be ready for follow-on funding. The intensive services that go along with the capital have been instrumental in the fund's success. Once the companies are approved for funding they continue to receive concentrated one-on-one support to reach the milestones set out in their contract. Continued support also includes capital planning for follow-on funding, determining options and making introductions to seed stage investors.

Through 2010, the TBFP has approved almost \$12 million to more than 100 Oklahoma-based companies, and funded \$9.5 million that has in turn leveraged more than \$225 million in additional private sector capital—a leverage ratio of 23 to 1. In addition, while the number of TBFP clients represents only a small fraction of Oklahoma's technology firms, they account for more than half of the reported equity raised in Oklahoma. Clients confirm that TBFP funds along with i2E services enhanced their ability to attract follow-on capital.

TBFP has received repayments totalling over \$3.4 million and now accounts for almost 40 percent of capital available for new awards. While the state has cut proof of concept funding support, i2E has been able to make the same levels of investments each year as a result of company repayments to the TBFP.

**Oklahoma Seed Capital Fund (OSCF):** Established in 2007 and funded by the state, the Oklahoma Seed Capital Fund is managed by i2E through an annual contract with OCAST. The pre-seed fund provides seed and start-up stage equity financing to small advanced technology companies in investments ranging from \$250,000 to \$750,000 per funding round. Rounds are invested in companies at early stages of development, typically with the founders and product developers onboard but without a complete management team in place. The fund operates like a conventional early stage fund with the specific goal of bridging the funding gap between personal sources and traditional sources of venture capital.

To be eligible for the Seed Fund, an entrepreneur must be at the seed or start-up stage. i2E seeks firms that have the potential to become high growth businesses and could contribute to the on-going economic growth of the state. The use of funds is based on the company's submitted business plan. They may include such activities

as developing intellectual property, completing market assessments, implementing business operations, and securing the management team. Similar to TBFP, i2E attaches its advisory services to the investments it makes.

The current seed fund portfolio consists of seven companies. The Seed Capital fund has invested approximately \$4 million and the portfolio has raised in aggregate \$30 million since 2008.

It is important to note that the TBFP and Seed Fund are the only sources of organized proof of concept and seed funding sources for start-up technology and high growth companies available in Oklahoma.



**SeedStep Angels:** As companies launch products and begin receiving revenues, SeedStep Angels, organized and managed by i2E, is the next potential source for risk capital. SeedStep Angels is a network of accredited angel investors that provide capital, strategic advice and mentoring to emerging growth companies. The network exposes entrepreneurs to a wide set of potential investors, and the structured process facilitates quick and efficient investment decisions. Typical investments range from \$50,000-500,000 as a group with individuals having options for side-by-side investments. SeedStep Angels also has the opportunity to co-invest with the Seed Capital Fund or other private funds. In addition to seed and post-seed investments, the investors often provide mentoring to entrepreneurs who receive funding. This expanding group was established in 2009, and has become the largest angel network in a 400 mile radius of Oklahoma City.

While the angel network is a critical component of i2E's capital continuum, it has experienced two difficulties in managing the angel network. First, i2E believes there is the organizational challenge related to the fact that angel groups are not sustainable by themselves. As a result, administrative funding is required to ensure best practices, coherency/communication among the network, and other administrative tasks. i2E has traditionally found sponsorship dollars for those expenses, although the fundraising can be quite difficult. State funding has yet to be available for such activities.

Currently, to support angel network operations, i2E has been able to access a U.S. Economic Development Administration grant that was matched with local money. Overall, i2E believes that angel networks cannot be self-sustaining; other financial sources of support must be found.

Finally, in terms of the dearth of late stage equity funds in Oklahoma, i2E believes that just as companies start locally, so does money. Indigenous venture capital is critical to developing a robust financial continuum. i2E leaders believe that being able to attract a later stage venture community requires an organized angel community, which is why such focus is placed on SeedStep Angels and nurturing angel groups in general.

### **Business Advisory Services**

Venture Advisors who advise and coach entrepreneurs are central to i2E's mission. These experienced professionals work closely with each client, coaching them from



initial technology development, business planning and positioning for funding, all the way through to the launch of the company. Since each entrepreneur comes to i2E with different skills and experiences, the organization provides a customized mix of coaching, technical services and access to capital. In addition, i2E recognizes that it takes a team to carry an idea to a marketable product. The organization's workshops, seminars and luncheons offer networking opportunities with some of Oklahoma's top business minds and investors, and the venture advisors work with the company to help identify the appropriate networking opportunities.

As the company begins to grow, the venture advisors introduce the company to i2E's Entrepreneurs-in-Residence network, who will work intensely with the company to build the management team and operation. The Entrepreneur-in-Residence (EinR) program is different than in other Venture Development Organizations. At i2E, the EinR program was born out of the belief that in Oklahoma entrepreneurs could sometimes feel isolated from the rest of the world, and that to be successful companies needed to build bridges to other strong entrepreneurial regions in the U.S. Interestingly, i2E is not concerned that if a company builds a relationship in California, the company is going to move. Instead, they believe that the fundamental purpose of the EinR program is to be able to access talent in other parts of the county; bring them here and expose them to Oklahoma's entrepreneurs, thereby making stronger companies.

Currently, i2E has four contract EinRs that work with its companies. They are subject matter experts in targeted areas, such as raising early stage capital, working with investors, and managing a board of directors. The EinRs provide an educational forum for up to 20 companies, depending on the subject matter, on their specific area of expertise. Then, i2E arranges for a series of smaller meetings and one-on-one counselling with a select number of companies that are ripe for that specific information. An EinR typically provides this assistance over a single week and then follows-up with phone calls to select companies. This program is an example of how i2E believes it has grown over time and has become more sophisticated with the services it can provide.



## Entrepreneurial Development

For the past seven years, i2E has managed a statewide collegiate business plan competition that has one of the largest cash prizes in the nation. It's partially funded by the Donald W. Reynolds Foundation and local sponsorships. The competition allows i2E to conduct outreach into the universities, promote high growth entrepreneurship, and connect the young people with the business community.

As an outgrowth of the business plan competition, i2E has developed a fellowship program in which it links students with start-ups for a paid 10-week fellowship. The fellowships focus on providing students with robust experiences within very small start-ups with only two or three employees. Students work on projects designed specifically for the skills they bring to the fellowship position.

Likewise, the organization has started a fellowship internally at i2E where it hires students to work either on its investment team or its entrepreneur advisory team. This fellowship was created in order to help train students with talents that don't exist en masse in Oklahoma. For example, there aren't a lot of fund managers in Oklahoma. Therefore, i2E is trying to get more people exposed to some of the work it is doing. The hope is that i2E will provide this training, knowing that more than likely some of these young people are going to leave the area, but maybe in a few years they will come back. And it has worked. i2E has just hired an individual that went through the business plan competition five years ago, was a pilot intern for what has become the fellowship program, started his career elsewhere, and then returned to Oklahoma. He is now managing i2E's Proof of Concept Fund.

## Moving the Needle



i2E provides services to a number of companies that successfully go on to raise additional financing. On average, about 25 companies in i2E's portfolio raise a combined total of approximately \$25 to \$30 million a year. Every one of them is in i2E's advisory services portfolio. i2E's services are very market-driven and constantly change as the companies' needs dictate.

In addition, i2E is an active voice in the community about what needs to occur to develop more of a venture industry in Oklahoma. This year, i2E is conducting a risk capital strategy for the state that will focus on outlining what other regions are doing, what Oklahoma has done, and what it should be doing.

i2E recognizes that its mission of stimulating home-grown economic development and creating jobs and wealth for Oklahoma is not accomplished alone. As the saying goes, it DOES take a village, and i2E works as part of a community of Oklahoma organizations that share the goal of advancing the state's economy. It has partnered with the both private and public entities that provide not only funding but people, ideas and strategies that are pushing the needle of economic development in Oklahoma. Locally, i2E's mission is supported by the Greater Oklahoma City Chamber, the City of Oklahoma City, the Presbyterian Health Foundation, the Oklahoma Medical Research Foundation and the Oklahoma Business Roundtable, as well as its strategic state partners in the Oklahoma Center for the Advancement of Science and Technology and the Oklahoma Department of Commerce.

It's not just formal partnerships with other like-minded Oklahoma organizations that move the needle for Oklahoma's economy. It's also individuals such as the members of the SeedStep Angels who have confidence in i2E's team-based approach and who recognize the opportunities presented by Oklahoma's emerging high growth companies.

It's the dozens of foundations, companies and individuals throughout Oklahoma who have backed the growth and development of entrepreneurs on college campuses across the state with their enthusiastic support of the Donald W. Reynolds Business plan competition. And it's the more than 60 innovators and entrepreneurs annually who have heard about i2E's mission and reputation and signed on to access its services as they begin their journey down the entrepreneurial pathway.

## Organization



The organization of i2E has changed quite a bit over the years. Today, it has a formal organizational structure in which four management divisions, each with a staff, report directly to the President. Each manager has specific responsibilities: investment activity, entrepreneur services activity, marketing and networking, and operations. This has enabled i2E to bring in more seasoned talent related to managing investment capital entrepreneurial services. This includes a serial CFO and a sales pipeline expert.

i2E has a large Board of Directors with up to 34 members that represents every quadrant of the state per the original by-laws. The board currently has 26 members that each serve on one of six committees. The Executive Committee is comprised of 11 members and helps oversee the overall organization's management and governance. There is also a Seed Fund Committee and a Proof of Concept Fund Committee, each of which helps make investment decisions.

The other major stakeholders include various state officials, which as a result of term limits, can be difficult to manage. i2E is also reaching out more to the larger corporations in the state to ensure that they understand the added-value the organization brings to the economic climate of the state. These efforts have aided in i2E's efforts to raise more awareness of entrepreneurship and raise funds for the organization.

## Summary of Key Success Factors

There are five key success factors that have enabled the success i2E has achieved. The first is its focus on making targeted investments. In states like Oklahoma where investment capital is scarce, it is important for the public sector to help prime the pump for the financing of technology sectors. TBFP's small, yet impactful investment has been instrumental in leveraging large amounts of follow-on capital. Without this first investment, many of these companies would have not launched a product, or would have done so in another state.

The second is the recognition that merging capital with intensive advisory services is a powerful combination. i2E has learned that successful capital programs cannot exist in a vacuum. To ensure success of early stage capital programs, i2E provides a spectrum of commercialization and advisory services that complement its capital initiatives.

Third, i2E firmly believes that partnerships increase the quality of deals and the performance of investments. In developing the capital and other commercialization programs for Oklahoma's high growth start-ups, i2E has partnered with many technology-based and other traditional economic development organizations. i2E works closely with the Greater Oklahoma City Chamber, the Tulsa Chamber, the state's major research universities and institutions and the Oklahoma Department of Commerce to help identify potential clients and to support the programs to serve those clients.

Fourth, the longevity of the primary sponsor's financial support has been critically important. While the State of Oklahoma's funding rises and falls with the economic conditions, the fact is every year there remains some level of support. In i2E's opinion, venture development organizations cannot offer the suite of robust services and activities without some level of public support. They also firmly believe that the funding streams should be a mix of public and private support. However, the state support has allowed the organization to experience the longevity it has because it has allowed for the required time to develop a robust set of success metrics. "Those don't happen in five years. It takes a long time."

Finally, Venture Development Organizations cannot be afraid to try new things in every aspect of its business. Just like the entrepreneurs they assist, the organization must be flexible, nimble, and responsive to the changing needs in the market.

#### **More Information**

For more information on the highly successful i2E model, please visit:  
<http://www.i2E.org/>