

VENTURE CAPITAL (VCs) LEGAL OVERVIEW

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**PREPARED BY
INTERNATIONAL BUSINESS LEGAL ASSOCIATES**

VENTURE CAPITAL

LEGISLATION	RELEVANT PROVISION	COMMENTS	RECOMMENDATIONS
<p>The Companies Law No. (22) of 1997</p>	<p>Article (6) Types of companies under the Companies Law are:</p> <ol style="list-style-type: none"> 1- General Partnership 2- Limited Partnership 3- Limited Liability 4- Limited Partnership in shares 5- Public Shareholding 	<p>For VCs purposes it is recommended that at the operational companies level it is better to have such companies formed in a Private Shareholding Company form.</p> <p>In a typical VC transaction the VC owns a portion of the operating company's shares. In addition, a shareholders agreement is signed to guarantee the Board members which also include a representative of the VC. Moreover, in a typical VC transaction the VC gets preferred stocks in the operational company.</p> <p>At present, most, if not all, IT companies in Jordan are LLCs. Such companies do not issue stocks and cannot have a shareholders agreement among the shareholders (owners) of the company. In addition, since LLCs do not issue stocks rather the capital is represented in shares (portions) with equal entitlements both in terms of the economic and voting rights, such companies cannot issue preferred stocks or any type of stocks for this</p>	<p>Create a Public Shareholding Company with the following features:</p> <ol style="list-style-type: none"> 1. Allow for multiple classes of securities with separate economical and voting rights. 2. Authorize stock options. 3. Permit voting agreements (shareholders agreement). 4. Allow Board and shareholder action by written consent. 5. Allow participation in Board meetings by means of phone or any other means where it is possible to hear all the participants. 6. Ability to issue corporate bonds both convertible and non-convertible. 7. Ability to buy-back its shares (redemption). 8. No restrictions on the members of the Board in terms of how many Boards one can be a member of at the same time. 9. Define procedures for transformation of an LLC into a Private

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		matter.	shareholding Company and the transformation of Private Shareholding Company into a Public Shareholding Company.
	Articles (77) - (89) Limited Partnership in Shares	<p>In the USA where the VC industry was created, a VC usually takes the form of a limited partnership which functions to a large extent as the Limited Partnership in Shares Company in the Jordanian Companies Law.</p> <p>Under this model, the VC consists of two types of shareholders: the Venture Capitalists are the General Partners; and the Institutional Investors are the Limited Partners.</p> <p>Moreover, in a typical VC, the Institutional Investors get preference over the Venture Capitalist and therefore a Limited Partnership in Shares should be able to issue different types of stocks mainly preferred stocks to accord the Limited Partners (Institutional Investors) preference.</p> <p>The method by which profits, losses and distribution of profits are conducted usually is agreed upon in the Articles of Incorporation</p>	<p>Amend the provisions of the Limited Partnership in Shares Company as follows:</p> <ol style="list-style-type: none"> 1. Allow for multiple classes of shares. 2. Introduce a lock-up period for General Partners unless otherwise provided in the Articles of Incorporation. 3. Profits, losses and distribution of profits should be specified in the Articles of Incorporation.

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The Securities Law No. (23) of 1997	Article (35) Investment Management activities are restricted to financial services companies licensed by the Jordan Securities Commission to carry out such activities. Moreover, such activities may only be carried out by certified financial professionals.	of the VC Fund. A VC carries out investment management activities for sophisticated large investors (institutional investors) and it usually invests in non-public companies (operational companies). Such investors are sophisticated enough and do not require the protection accorded to investors in the Securities Law. In addition, such investors are fully capable of making sound investment decisions and capable of assuming any risk attached thereto.	The activities of VC funds should be explicitly excluded from the coverage of the Securities Law. However, it should be clear in the Law that the investors of VC Funds may only be Institutional Investors and individuals with a high net worth value of a certain threshold to be defined in the Law.
	Articles (44) – (52) Investment Funds & Investment Companies	Under these provision the Investment Fund is structured in a manner where it is managed by an Investment Manager Company under the supervision of an Investment Trustee Company. Such structure does not fit with the operations of a VC Fund where such Fund is managed by the Venture Capitalist and not by an Investment Manager Company. The Investment Fund as structured in the Law operates more like a Mutual Fund rather than a VC Fund. Moreover, under these provisions an Investment Company may only be a Public Shareholding	VC Funds should be explicitly excluded from these provisions. The parameters for its operations, nonetheless should be defined in the Law.

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		Company.	

FLOW CHART OF A TYPICAL VC TRANSACTION
USA Model

