

Financing a Startup: Selecting the Investor and Negotiating the Term Sheet – The Entrepreneur's Perspective



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Today's Start-Up Market

Venture Funding in a Financial Crisis

- Investments by venture capital firms in 2010 have increased in both number and size over those in 2009.
- Total VC investments in 2010 are on track to be \$22.3 billion (annualized based upon the first three quarters), compared to \$18.2 billion in 2009 and \$27.9 billion in 2008.
- Number of VC deals in 2010 are on track to be about 3,300 (annualized based upon the first three quarters), compared to about 2,900 in 2009 and 3,900 in 2008.
- The average deal size in 2010 is around \$6.7 million, compared to \$6.3 million in 2009 and \$7.0 million 2008; and much smaller than that for Series A.
- First rounds deals have raised approximately \$1.2 billion in each of the first three quarters of 2010, compared to the first three quarters of 2009 when first round deals accounted for less than \$1 billion in each quarter.
- The IPO market has rebounded to some extent for venture-backed companies. According to the National Venture Capital Association, 40 venture-backed companies have gone public so far this year, compared to 8 in the first three quarters of 2009 and 6 in the first three quarters of 2008.

Overview

- Select the Right Investor
- Current Trends in Raising Capital
- Other Considerations
- What do VCs Expect?
- The Venture Capital Model
- Venture Capital Financing Terms
- Appendices

Company Formation Issues: Selecting the Right Entity and Jurisdiction

- Venture capitalists prefer C corporations
 - Investor familiarity with centralized management structure and formalities
 - Some funds are precluded from investing in pass through entities for tax reasons
 - Full range of exit strategies or liquidity options not available to other entity types
 - Lower organizational and ongoing administrative costs than an LLC or LP
- Venture capitalists prefer Delaware
 - Well-formed body of corporate law, including long-established principles in case law and ease of filing
 - Increased flexibility under Delaware law with respect to Board composition and corporate administration
 - National understanding of Delaware law among practitioners
- *Note: Far greater variability in entity formation with alternative financing structures and bootstrapping*

Selecting the Right Investor

- Long-term Relationship
 - VCs vs. Strategics vs. Angels/Individuals vs. “Bootstrapping”
- Early stage financing woes force many to angel or bootstrapping models
- Early stage funds seeking “capital efficient” models
 - Much lower financing amounts
 - Does not work for many larger funds (small investments cannot “move the needle”)
- Referrals by Professionals
 - Use Caution with Finders/Brokers
- Your Due Diligence: The Investor
 - Fund size (“dry powder”) and trade record
 - Commitment to industry/stage
 - Industry / Strategic Expertise
- References from Portfolio Founders
 - Internet and Publications
 - Attorneys and Accountants

Selecting the Right Investor

- Angel Investors
 - Typically individuals; active/former entrepreneurs
 - Typically Invest \$500,000-\$1,000,000
 - May provide guidance and advice to founders/CEO
 - Often want to help entrepreneurs and “give back;” financial return is not necessarily the sole or even primary driver for an angel (i.e., targets not as rigorous)
- Venture Capital
 - Typically expect a lot of control
 - Typically only target businesses that have very large market opportunity
 - Goal is to maximize financial return for limited partners
 - Ideally provide market expertise and can open doors and make introductions for a portfolio company
 - Add credibility
- Bootstrapping

Current Trends in Raising Capital

- Liquidity events are typically 6-8 years out; M&A is still the most common exit (by far)
 - Exit values are down and acquirors consolidated
 - This is making early stage capital harder to get
- VC Syndication
 - Spreads risk and creates deeper pockets for follow-on rounds
 - However, smaller deals mean less syndication (no room in syndicate)
- Still hard to get new money to pull the trigger
 - Typically takes at least 6 to 12 months
 - Expect to talk to dozens of VCs
- Extensive due diligence on the business plan, market, founders and management
- Often requiring revenue and/or customer traction (requires more seed funding and bootstrapping)
- New “seed preferred lite” replacing some bridge notes for interim financing

Current Trends in Raising Capital

- Focus is on solid, sustainable, capital efficient business models with **experienced management**
 - *Businesses* are fundable, *ideas* are not
- General aversion to capital-intensive business models
 - Exceptions for some cleantech/renewable energy and semiconductor business models
- Less flexibility on valuations
- Valuation Drivers: Developed product; paying customers; revenue; large addressable market; strong management team; proprietary technology/barriers to entry

Other Considerations

- Choose carefully, because a VC will be your “partner” for a long time
- Be wary of using “finders”
- Unless they are registered broker-dealers their involvement may violate securities laws
 - Causes conflict with investors
- Use caution with strategic investors early on
 - Often have different motivations from financial investors
 - May limit flexibility
- Choose competent and experienced advisors
 - Focused expertise provides efficiencies
 - Know trends in deal terms
 - Can make introductions to sources of capital and other experienced service providers
- Avoid creating due diligence/deal issues
 - See Appendix – Top 10 Start-Up Mistakes (slide 36)

What Do VCs Expect?

The Four Ms:

- Model
- Market
- Management
- Momentum (later stage)

What Do VCs Expect?

Structure : C Corporation (DE or TX)

Founders: Common Stock

- Vesting/Acceleration Issues
- 83(b) Election

Employees: Option Pool; Standard Terms

Investors: Preferred Stock

- AK Start-Up Package proactively addresses common concerns and issues. www.akstartup.com

The Venture Capital Model

Capitalization Summary

	Series A Financing	Series B Financing	Series C Financing	IPO
Fully-Diluted Outstanding Value (pre-money)	\$5,000,000	\$20,000,000	\$50,000,000	\$150,000,000
New Money	\$5,000,000	\$10,000,000	\$25,000,000	\$75,000,000
Target Post-Money Option Pool	18.0000%	18.0000%	18.0000%	18.0000%
Price Per Share	\$0.6400	\$1.1395	\$1.6907	\$3.0103
Fully-Diluted Outstanding Value (post-money)	\$10,000,000	\$30,000,000	\$75,000,000	\$225,000,000

Capitalization	Organization		Series A Financing		Series B Financing		Series C Financing		IPO	
	Shares	Percent	Shares	Percent	Shares	Percent	Shares	Percent	Shares	Percent
Founder 1	2,500,000	40.00%	2,500,000	16.00%	2,500,000	9.50%	2,500,000	5.64%	2,500,000	3.34%
Founder 2	2,500,000	40.00%	2,500,000	16.00%	2,500,000	9.50%	2,500,000	5.64%	2,500,000	3.34%
Option Pool	1,250,000	20.00%	1,250,000	8.00%	2,812,499	10.68%	4,738,869	10.68%	7,984,666	10.68%
Option Pool Increase			1,562,499	10.00%	1,926,370	7.32%	3,245,797	7.32%	5,468,952	7.32%
Series A Preferred Stock Investor			7,812,499	50.00%	7,812,499	29.67%	7,812,499	17.61%	7,812,499	10.45%
Series B Preferred Stock Investor					8,775,684	33.33%	8,775,684	19.78%	8,775,684	11.74%
Series C Preferred Stock Investor							14,786,424	33.33%	14,786,424	19.78%
Public Investors									24,914,112	33.33%
Total (fully diluted)	6,250,000	100.00%	15,624,998	100.00%	26,327,052	100.00%	44,359,273	100.00%	74,742,337	100.00%

Financing	Money	Shares	Money	Shares	Money	Shares	Money	Shares
Price per share	\$0.6400		\$1.1395		\$1.6907		\$3.0103	
New Investment	\$5,000,000	7,812,499	\$10,000,000	8,775,684	\$25,000,000	14,786,424	\$75,000,000	24,914,112

Option Pool Detail	Shares	Percent	Shares	Percent	Shares	Percent	Shares	Percent
Total Current	1,250,000		2,812,499		4,738,869		7,984,666	
Pool Increase	1,562,499		1,926,370		3,245,797		5,468,952	
New Total	2,812,499	18.0000%	4,738,869	18.0000%	7,984,666	18.0000%	13,453,618	18.0000%

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Venture Capital Financing Terms

- Common vs. Preferred Stock
- Valuation
- Dividends
- Liquidation Preferences/Participating Preferences
- Conversion Rights and Anti-Dilution Protection
- Preemptive Rights
- Redemption Rights
- Protective Provisions
- Board Structure
- Registration Rights
- Information Rights
- Rights of First Refusal and Co-Sale
- See Appendix - VC Terminology

Venture Capital Financing Terms

- VC terms are fairly customary, subject to geographic nuances
 - East Coast v. West Coast
- Expectation of speed, efficiency and simplicity
- Principals focus on core issues at term sheet stage and expect that not much time will be spent on the definitive agreements
- **The Series A Financing terms form the basis for all future rounds**

Venture Capital Financing Terms

Common Stock v. Preferred Stock

- Convertible Preferred Stock is the financing vehicle of choice
- Preferred Stock provides superior rights, preferences and privileges
 - Economic terms such as liquidation preferences, conversion privileges and anti-dilution rights
 - Control provisions
- Two-Class structure allows start-up to grant stock options at a discount to the Preferred Stock price

Venture Capital Financing Terms

Valuation

- Determines ownership split; percentage ownership less important than dollar-expressed valuation
- Reduced exit valuations and delayed exits can affect early stage values
 - Be realistic about the timing and prospects for, and the possible value of, a liquidity event
- Today's valuation sets expectations for the next round of financing, so think through the implications, both positive and negative, of a current valuation offer
- Back door pre-money valuation reductions
 - Large Pre-Money Option Pool
 - Milestone-based anti-dilution triggers
 - Milestone-based Closings
 - Disproportionate liquidation preferences
 - Cumulative Dividends
 - Warrants

Venture Capital Financing Terms

Dividends

- Cumulative vs. non-cumulative
 - Non-cumulative dividends are only paid when declared by the Board
 - Never paid because start-ups are cash starved
 - Cumulative dividends accrue like interest on a note and get added to the liquidation preference
 - Payable upon liquidation or conversion
 - Increase the investor's return and decrease proceeds payable to common stock

Venture Capital Financing Terms

Liquidation Preferences/Participating Preferences

- Liquidation Preference is the right to receive proceeds upon liquidation (including sale of company) before any distribution to common shareholders
 - Seniority over junior preferred stock and common
 - Super liquidation preference (e.g., 3x preference off the top) are NOT common; typically only used in recaps
- Participating Preference is the right to participate in the distribution of the remaining proceeds (after payment of the Liquidation Preference) on a pro rata basis with the Common Stock
 - Fully participating with no cap (i.e., full participation right) becoming more prevalent way to increase potential returns on winners
 - Try to cap participation (e.g., 3x the original purchase price)
- See Appendix – Preferred Stock Liquidation Scenarios and Article for examples

Venture Capital Financing Terms

Conversion Rights and Anti-Dilution Protection

- Conversion Rights
 - Preferred Stock typically is convertible into Common Stock at a 1:1 ratio (Preferred Stock Price/Conversion Price)
 - Allows investor to have virtually unlimited upside by converting to Common Stock in connection with an acquisition or IPO
 - Convertible at any time at the option of the investor
 - Automatically convertible in certain circumstances
 - Conversion feature allows for implementation of price-based anti-dilution protection

Venture Capital Financing Terms

- Anti-Dilution Protection
 - Price-based anti-dilution provisions adjust the conversion ratio of the Preferred Stock upon triggering events (down round, missed milestone, etc.)
 - For example, the conversion ratio may adjust to 2:1 because the conversion price (the denominator) is adjusted to a lower number (1/.5)
 - VC Terms should provide for customary exclusions from the anti-dilution provisions
 - Option pool, strategic investments, charitable causes, lending transactions, etc.

Venture Capital Financing Terms

– Types of Anti-Dilution Provisions:

- Full ratchet
 - Adjusts the conversion price to the price at which the dilutive security was sold (See Article for example)
 - Most investor-favorable; harsh results
- Weighted average: Broad-based vs. Narrow-based
 - Broad-based still the most common
 - Adjusts the conversion price after taking into account the current shares outstanding and the number of shares sold at the dilutive price
 - Broad-based weighted average formula:

$$NCP = CP * \left[\frac{CSO + \left(\frac{NM}{CP} \right)}{CSO + AS} \right]$$

Where:

NCP = New Conversion Price

CP = Current Conversion Price

CSO = Common Stock Outstanding on a Fully Diluted Basis (excluding unissued options)

NM = New Money Raised

AS = Additional Shares Issued for New Money

Venture Capital Financing Terms

		Percentage Ownership
Fully-Diluted Outstanding Value (pre-money)	\$5,087,940	36.12%
New Money	\$9,000,000	63.88%
Fully-Diluted Outstanding Value (post-money)	\$14,087,940	100.00%

New Investor \$ Amount

	Pre-Series C Closing		Post-Series C Closing		Post-Reverse Split (1 for 50)		Post-Dividend Warrants		Post-Split/Post Warrants	
	Shares	Percent	Shares	Percent	Shares	Percent	Shares	Percent	Shares	Percent
Common Stock	3,038,592	22.8%	3,038,592	0.53%	60,772	0.53%	3,038,592	0.53%	60,772	0.53%
Dividend Warrants							11,517,168	2.00%	230,343	2.00%
Common Stock Warrants	24,124	0.2%	726,129	0.13%	14,523	0.13%	726,129	0.13%	14,523	0.13%
Option Pool (exercised)	249,839	1.9%	249,839	0.04%	4,997	0.04%	249,839	0.04%	4,997	0.04%
Option Pool outstanding	1,212,356	9.1%	1,212,356	0.21%	24,247	0.21%	1,212,356	0.21%	24,247	0.21%
Option Pool available	1,877,805	14.1%	1,877,805	0.33%	37,556	0.33%	1,877,805	0.33%	37,556	0.33%
Option Pool Increase			140,614,375	24.42%	2,812,287	24.42%	140,614,375	24.42%	2,812,287	24.42%
Series A Preferred Stock	3,811,041	28.7%		0.00%	-	0.00%	-	0.00%	0	0.00%
Series A Warrants	26,000	0.2%	26,000	0.00%	520	0.00%	26,000	0.00%	520	0.00%
Series A-1 into Common			2,066,855	0.36%	41,337	0.36%	2,066,855	0.36%	41,337	0.36%
Series A-2 into Common			39,318,293	6.83%	786,366	6.83%	30,834,873	5.35%	616,697	5.35%
Series B Preferred Stock	3,049,813	22.9%		0.00%	-	0.00%	-	0.00%	0	0.00%
Series B Warrants	10,000	0.1%	10,000	0.00%	200	0.00%	10,000	0.00%	200	0.00%
Series B-1 into Common			2,582,682	0.45%	51,654	0.45%	2,582,682	0.45%	51,654	0.45%
Series B-2 into Common			14,060,579	2.44%	281,212	2.44%	11,026,831	1.91%	220,537	1.91%
Series C Preferred Stock			370,074,911	64.26%	7,401,498	64.26%	370,074,911	64.26%	7,401,498	64.26%
Total (fully diluted)	13,299,570	100.0%	575,858,416	100.00%	11,517,168	100.00%	575,858,416	100.00%	11,517,168	100.00%

Series C Financing	Money	Shares	Post-Split
Price per share	\$0.024725		\$1.2362
New Investment	\$ 9,000,000	364,008,132	7,280,163

Anti-dilution adjustments	Pre-split	Post-split	Post-warrants
Post-Series C first close			
Series A conversion price pre-Series C	\$1.72000	\$86.00000	\$86.00000
Series A conversion price post-Series C	\$0.07630	\$3.81502	\$4.86462
Series A conversion ratio post-Series C	22.54248907	22.54248907	17.67866142
Series B conversion price pre-Series C	\$8.56290	\$428.14500	\$428.14500
Series B conversion price post-Series C	\$0.28448	\$14.22415	\$18.13756
Series B conversion ratio post-Series C	30.09986311	30.09986311	23.60543625

	Option Detail	Post-Split
Granted	1,462,195	29,244
Ungranted	1,877,805	37,556
Current	3,340,000	66,800
Pool Increase	140,614,375	2,812,287
	143,954,375	2,879,087



Venture Capital Financing Terms

Preemptive Rights

- Give investors the right to purchase their pro rata share of any equity securities sold by the Company
 - E.g., investors own 50% of the Company and the Company offers to sell \$10 million of equity securities, the investors have the right to purchase \$5 million of the securities
 - Also apply to issuances of securities convertible into equity securities (e.g., convertible debt)
- Allows investors to maintain their ownership percentage of the Company
- May restrict the Company's ability to bring in new investors
- Customarily have the same exclusions that apply to the anti-dilution provisions

Venture Capital Financing Terms

Redemption Rights

- Right to require the Company to repurchase the shares after a period of time (usually 5-7 years)
- Rarely used, but do have purpose: focusing company on liquidity event
- Terms:
 - Sometimes includes accrued dividends (like debt)
 - Sometimes greater of fair market value or cost
 - Voting or board changes or additional interest for failure to redeem
 - Redemption sometimes required when reps, covenants breached
 - Time period (5-7 years vs. 3 years)
 - Shorter time periods for less certain deals
 - Structured pay-out (e.g., 3 years vs. one-time)

Venture Capital Financing Terms

Protective Provisions

- Provisions granting preferred stockholders special voting rights
- Board approval (including preferred directors) may be required for certain actions
- Restrictions on changes in Preferred Stock terms, or authorization/issuance of senior securities
- Sale of the company
- Can include many operational covenants or restrictions, including:
 - Hiring certain executives
 - Changing line of business
 - Increasing the option pool
 - Increasing salaries
 - Incurrence of indebtedness over certain amount
 - Capital expenditures over certain amount
 - Detailed use of proceeds, budget approval

Venture Capital Financing Terms

Board Structure

- VC model is to have active participation
- VC will insist on one or more Board seats
 - 5 Member Board, “2/2/1” structure is fairly common
 - 2 investors
 - 2 common (one is CEO)
 - 1 independent
- Start-up boards meet monthly
- Indemnification and insurance obligations

Venture Capital Financing Terms

Registration Rights

- Give investors the right to require the Company to register shares of stock with the SEC
- Mechanism for liquidity
- Types:
 - Demand Registration Rights
 - “Piggyback” Registration Rights
 - S-3 Registration Rights

Venture Capital Financing Terms

Information Rights

- Visitation rights
- Monthly and Quarterly unaudited and annual audited financial statements
- Management rights letter

Rights of First Refusal and Co-Sale

- Essentially lock up founders and prevent them from getting liquidity in front of investors
- Maintain control over ownership of the Company's equity

Venture Capital Financing Terms

Miscellaneous

- “Pay to Play” Provisions
 - increasingly useful/important with delayed exits and increased funding needs
- Founder Vesting
- Proprietary Information Agreements
 - Non-solicitation and non-compete
- Investor’s counsel fees and expenses
- Commercial insurance; D&O Insurance

An Entrepreneur's Guide to Venture Capital Financing Terms

Q & A

Appendices

Top 10 Start-up Mistakes

- Failure to properly organize the Company
- Failure to assign and protect intellectual property assets
- Failure to maintain adequate records (equity, contracts, etc.)
- Failure to correctly administer stock options/comply with securities laws in connection with issuances
- Failure to follow appropriate corporate governance procedures for stock and option issuances
- Violations of securities laws in connection with raising capital
- Underestimating how long it takes to raise capital
- Failure to manage cash burn appropriately
- Investment by too many (or the wrong) friends, family and angel investors (administrative and management burden)
- Use of “finders” to raise capital
- Using “wrong” attorney or failing to use attorneys (or using attorneys too extensively, too early)

VC Terminology

- **Pre-Money Valuation** – the valuation of the business before any equity investment by an outside party
 - Possible to avoid/defer through the use of convertible bridge loans
- **Post-Money Valuation** – the value of the business after the completion of an equity investment by an outside party
- **Common Stock** – the most basic form of stock representing the residual value of the Company; held by founders and employees
- **Founder’s Stock** – these are the shares of Common Stock that the founders of the Company purchase or typically receive at the creation of the company, usually for very low value (e.g. \$0.001 per share)
- **“Reverse” Vesting** – a mechanism to provide for time-based vesting, often imposed by an investor after the fact, to permit a company to repurchase a decreasing percentage of shares of founder’s stock over time based on a vesting schedule

VC Terminology

- **Option Pool** – a portion of the company’s outstanding stock set aside for use as equity incentive compensation for present and future employees. Allocated and unallocated amounts and required increases included in pre-money valuation
- **Preferred Stock** – a form of stock usually held by investors with certain rights and preferences superior to those of common stock, including liquidation preference, redemption and anti-dilution rights, and governance, voting and board rights and restrictions
- **Liquidation Preference** – the right of preferred stock holders to receive the value of their investment before any other liquidation distributions are made to other equity holders. Sometimes includes “participating preference” provision for the preferred stock to continue to share proceeds with the common
- **Antidilution Rights** – the right of preferred stock holders to maintain its fractional ownership percentage if shares are later issued at a lower valuation

Preferred Stock Liquidation Scenarios

Capitalization Summary

	Series A Financing	Series B Financing	Series C Financing	IPO
Fully-Diluted Outstanding Value (pre-money)	\$5,000,000	\$20,000,000	\$50,000,000	\$150,000,000
New Money	\$5,000,000	\$10,000,000	\$25,000,000	\$75,000,000
Target Post-Money Option Pool	18.0000%	18.0000%	18.0000%	18.0000%
Price Per Share	\$0.6400	\$1.1395	\$1.6907	\$3.0103
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Capitalization	Organization		Series A Financing		Series B Financing		Series C Financing		IPO	
	Shares	Percent	Shares	Percent	Shares	Percent	Shares	Percent	Shares	Percent
Founder 1	2,500,000	40.00%	2,500,000	16.00%	2,500,000	9.50%	2,500,000	5.64%	2,500,000	3.34%
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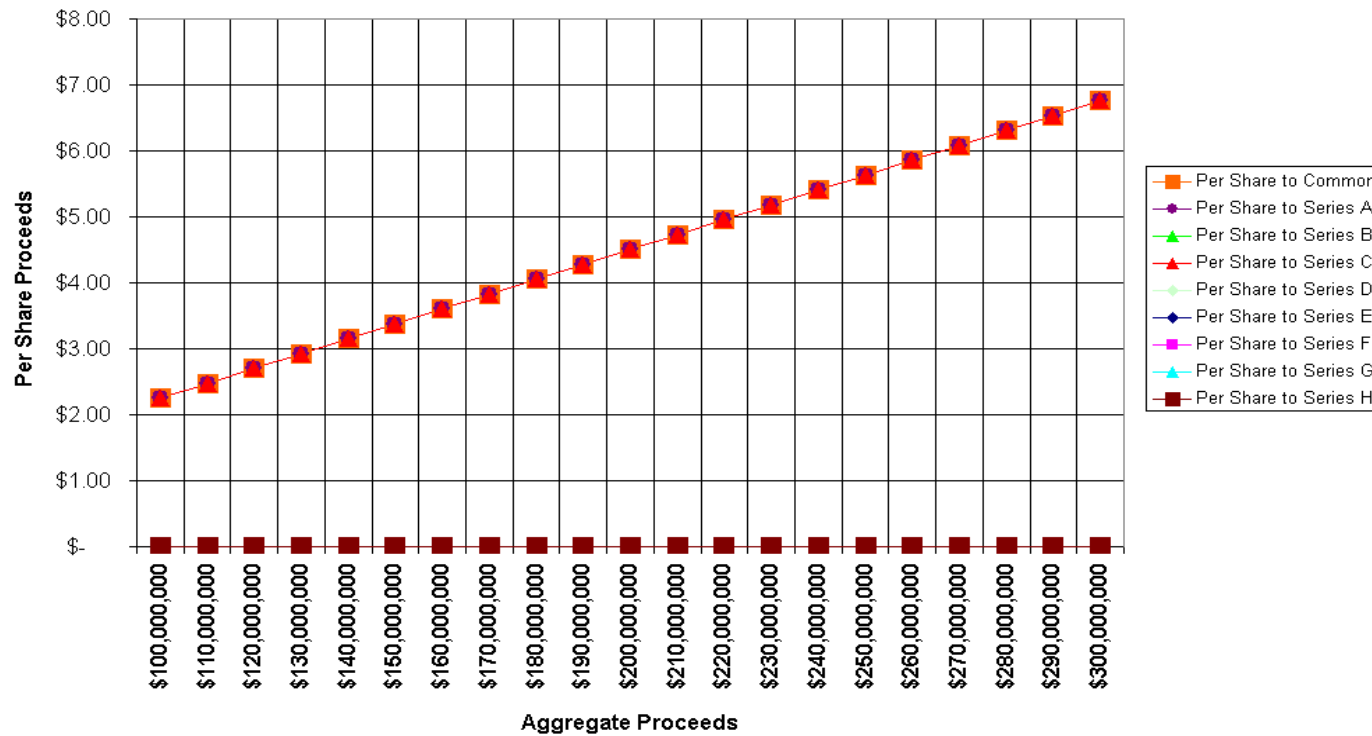
Preferred Stock Liquidation Scenarios

Example 1 - Liquidation Preference only; No Participating Preference

Series	\$ 100,000,000.00	\$ 110,000,000.00	\$ 120,000,000.00	\$ 130,000,000.00	\$ 140,000,000.00	\$ 150,000,000.00	\$ 160,000,000.00
Aggregate to Common	\$ 29,271,593.23	\$ 32,198,752.57	\$ 35,125,911.90	\$ 38,053,071.24	\$ 40,980,230.57	\$ 43,907,389.90	\$ 46,834,549.24
Aggregate to Series A	\$ 17,611,873.37	\$ 19,373,060.71	\$ 21,134,248.05	\$ 22,895,435.39	\$ 24,656,622.73	\$ 26,417,810.07	\$ 28,178,997.41
Aggregate to Series B	\$ 19,783,200.99	\$ 21,761,521.06	\$ 23,739,841.12	\$ 25,718,161.19	\$ 27,696,481.26	\$ 29,674,801.33	\$ 31,653,121.40
Aggregate to Series C	\$ 33,333,332.41	\$ 36,666,665.67	\$ 39,999,998.92	\$ 43,333,332.18	\$ 46,666,665.44	\$ 49,999,998.70	\$ 53,333,331.96
Aggregate to Series D	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Aggregate to Series E	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Aggregate to Series F	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Aggregate to Series G	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Aggregate to Series H	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Per Share to Common	\$ 2.25	\$ 2.48	\$ 2.71	\$ 2.93	\$ 3.16	\$ 3.38	\$ 3.61
Per Share to Series A	\$ 2.25	\$ 2.48	\$ 2.71	\$ 2.93	\$ 3.16	\$ 3.38	\$ 3.61
Per Share to Series B	\$ 2.25	\$ 2.48	\$ 2.71	\$ 2.93	\$ 3.16	\$ 3.38	\$ 3.61
Per Share to Series C	\$ 2.25	\$ 2.48	\$ 2.71	\$ 2.93	\$ 3.16	\$ 3.38	\$ 3.61
Per Share to Series D							
Per Share to Series E							
Per Share to Series F							
Per Share to Series G							
Per Share to Series H							

Preferred Stock Liquidation Scenarios

Example 1 - Liquidation Preference only; No Participating Preference



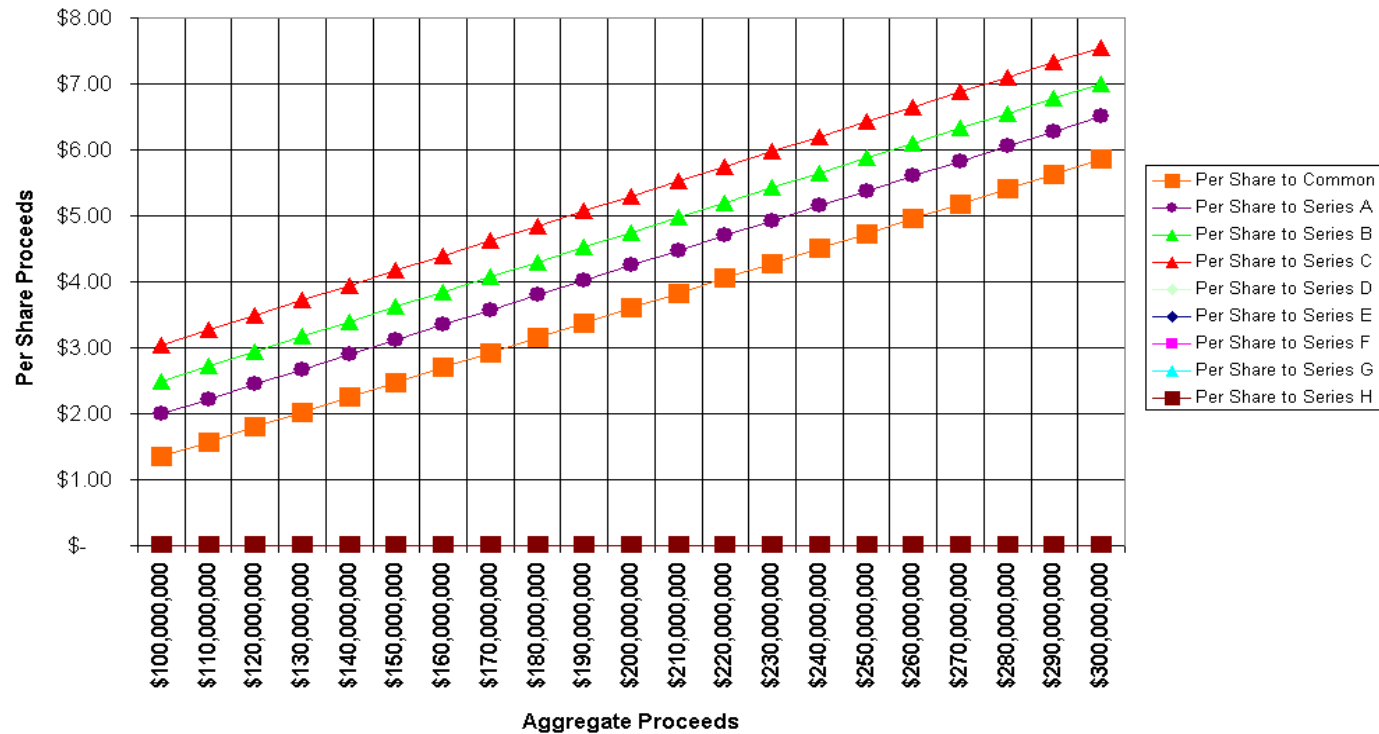
Preferred Stock Liquidation Scenarios

Example 2 - Liquidation Preference; Full Participating Preference

Series	\$ 100,000,000.00	\$ 110,000,000.00	\$ 120,000,000.00	\$ 130,000,000.00	\$ 140,000,000.00	\$ 150,000,000.00	\$ 160,000,000.00
Aggregate to Common	\$ 17,563,161.49	\$ 20,490,320.82	\$ 23,417,480.16	\$ 26,344,639.49	\$ 29,271,798.82	\$ 32,198,958.16	\$ 35,126,117.49
Aggregate to Series A	\$ 15,567,246.67	\$ 17,328,434.01	\$ 19,089,621.35	\$ 20,850,808.69	\$ 22,611,996.03	\$ 24,373,183.37	\$ 26,134,370.71
Aggregate to Series B	\$ 21,869,951.29	\$ 23,848,271.36	\$ 25,826,591.43	\$ 27,804,911.49	\$ 29,783,231.56	\$ 31,761,551.63	\$ 33,739,871.70
Aggregate to Series C	\$ 44,999,640.55	\$ 48,332,973.81	\$ 51,666,307.07	\$ 54,999,640.32	\$ 58,332,973.58	\$ 61,666,306.84	\$ 64,999,640.10
Aggregate to Series D	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Aggregate to Series E	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Aggregate to Series F	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Aggregate to Series G	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Aggregate to Series H	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Per Share to Common	\$ 1.35	\$ 1.58	\$ 1.80	\$ 2.03	\$ 2.25	\$ 2.48	\$ 2.71
Per Share to Series A	\$ 1.99	\$ 2.22	\$ 2.44	\$ 2.67	\$ 2.89	\$ 3.12	\$ 3.35
Per Share to Series B	\$ 2.49	\$ 2.72	\$ 2.94	\$ 3.17	\$ 3.39	\$ 3.62	\$ 3.84
Per Share to Series C	\$ 3.04	\$ 3.27	\$ 3.49	\$ 3.72	\$ 3.95	\$ 4.17	\$ 4.40
Per Share to Series D							
Per Share to Series E							
Per Share to Series F							
Per Share to Series G							
Per Share to Series H							

Preferred Stock Liquidation Scenarios

Example 2 - Liquidation Preference; Full Participating Preference



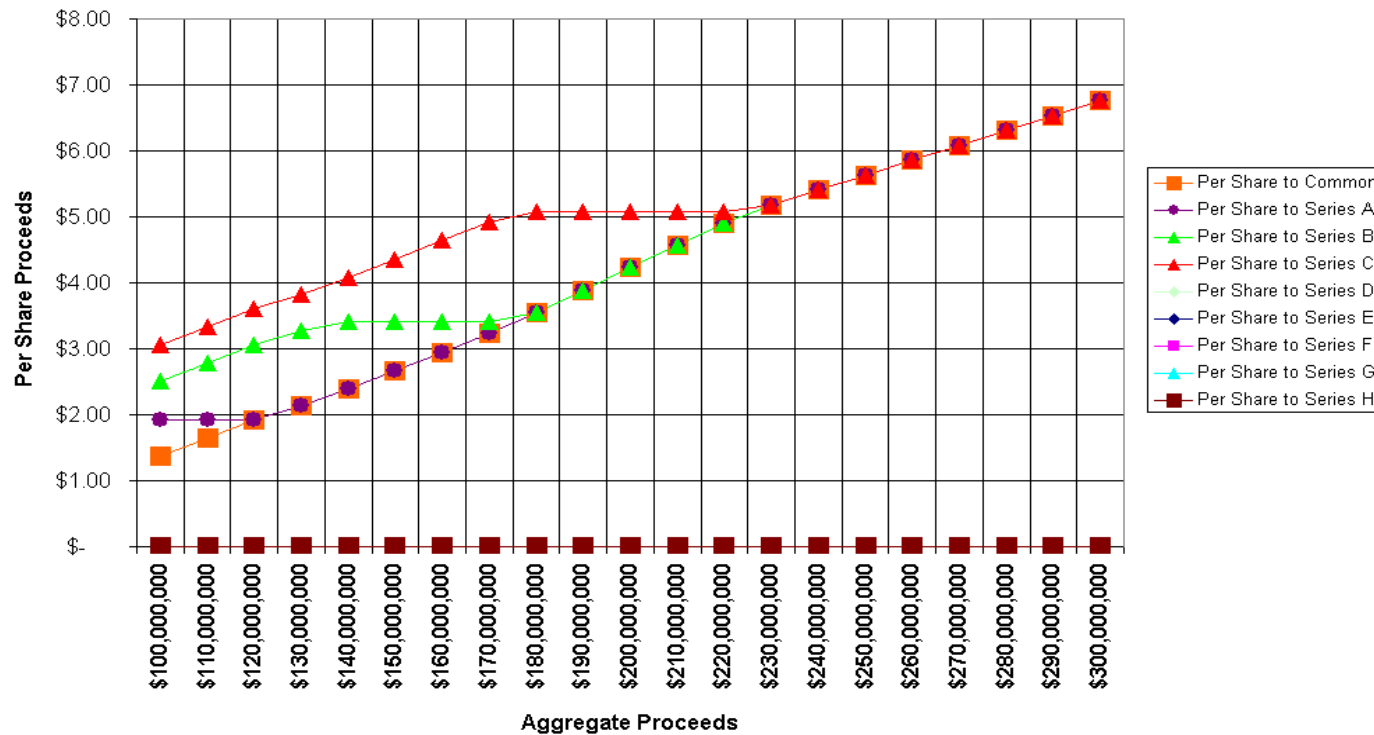
Preferred Stock Liquidation Scenarios

Example 3 - Liquidation Preference; Participating Preference with 3x Cap

Series	\$ 100,000,000.00	\$ 110,000,000.00	\$ 120,000,000.00	\$ 130,000,000.00	\$ 140,000,000.00	\$ 150,000,000.00	\$ 160,000,000.00
Aggregate to Common	\$ 19,800,461.57	\$ 23,648,736.11	\$ 27,297,796.36	\$ 30,735,346.47	\$ 33,662,505.80	\$ 36,589,665.13	\$ 39,516,824.47
Aggregate to Series A	\$ 12,539,060.93	\$ 14,228,762.43	\$ 16,424,296.72	\$ 18,492,571.47	\$ 20,253,758.81	\$ 22,014,946.15	\$ 23,776,133.49
Aggregate to Series B	\$ 20,113,088.12	\$ 20,192,849.26	\$ 20,192,849.26	\$ 20,772,478.33	\$ 22,750,798.39	\$ 24,729,118.46	\$ 26,707,438.53
Aggregate to Series C	\$ 47,547,389.38	\$ 51,929,652.20	\$ 56,085,057.66	\$ 59,999,603.74	\$ 63,332,937.00	\$ 66,666,270.26	\$ 69,999,603.52
Aggregate to Series D	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Aggregate to Series E	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Aggregate to Series F	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Aggregate to Series G	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Aggregate to Series H	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Per Share to Common	\$ 1.52	\$ 1.82	\$ 2.10	\$ 2.37	\$ 2.59	\$ 2.82	\$ 3.04
Per Share to Series A	\$ 1.61	\$ 1.82	\$ 2.10	\$ 2.37	\$ 2.59	\$ 2.82	\$ 3.04
Per Share to Series B	\$ 2.29	\$ 2.30	\$ 2.30	\$ 2.37	\$ 2.59	\$ 2.82	\$ 3.04
Per Share to Series C	\$ 3.22	\$ 3.51	\$ 3.79	\$ 4.06	\$ 4.28	\$ 4.51	\$ 4.73
Per Share to Series D							
Per Share to Series E							
Per Share to Series F							
Per Share to Series G							
Per Share to Series H							

Preferred Stock Liquidation Scenarios

Example 3 - Liquidation Preference; Participating Preference with 3x Cap



The materials included herein provide a general description of certain legal and business matters and should not be construed as providing specific legal advice or establishing an attorney-client relationship.

