

FAST SOFTWARE

A Case Study

Raising Capital

Stage 1 Funding Seed Capital

Stage I: Seed Capital

Spring of 2001: *(timeline month 0)*

- Looking to raise \$250K
- Headcount = 3
- Burn rate \$30K/month
- Funds to be used to:
 - Develop prototype
 - Buy equipment
 - Pay for op. expenses
 - Pay salaries

Stage I: Seed Capital

Options:

- Friends and Family
- Angels
- Seed Stage VC
- Corporate Investor
- Blue Bird
- Other

Stage I: Seed Capital

Parameters of a deal:

- Raise \$200K to \$300K
- Company valuation \$2MM to \$3MM
- 10% ownership stake
- Industry contacts a plus
- Ability to invest in future rounds a plus

Stage I: Seed Capital

Blue Bird Option:

- \$225K
- Used to purchase an option for a non-dilutive warrant for:
 - 10% ownership stake
 - \$8MM to exercise warrant, not valuable until company is worth more than \$80MM
- Passive investor
- Will not fund future rounds

Stage I: Seed Capital

Options July 2001: *(timeline month 3)*

1. Friends and Family ➤ \$250K available
2. Angels ➤ (Did not seek)
3. Seed stage VC ➤ Have been rejected by most firms sought
4. Corporate Investor ➤ (Did not seek)
5. Blue Bird ➤ \$225K available

Stage I: Seed Capital

Decision:

- Closed on \$225K warrant sale for a 10% non-dilutive stake in the company for \$8MM
- August 2001
- Valuation: N/M
- Next round in 6 months, valuation likely to be higher with prototype complete

Stage 2 Funding

Market Entry

Stage 2: Market Entry

Fall of 2001: *(timeline month 6)*

- Can demo technology, not installable
- Seeking \$250K
- Headcount = 3
- Burn Rate \$40K/month
- Funds to be used to:
 - Complete product development
 - Fund beta trials, first customer sales
 - Pay for operating expenses, salaries

Stage 2: Market Entry

Options:

- Friends and Family
- Angels
- Seed Stage VC
- Corporate Investor
- Blue Bird
- Other

Stage 2: Market Entry

Parameters of a deal:

- Raise \$200K to \$300K
- Company valuation \$2MM to \$3MM
- 10% ownership stake
- Industry contacts a plus
- Ability to invest in future rounds a plus

Stage 2: Market Entry

Options December 2001: *(timeline month 8)*

1. Friends and Family ➤ \$300K available
2. Angels ➤ (Did not seek)
3. Seed stage VC ➤ Recontacted firms, still not interested
4. Corporate Investor ➤ (Did not seek)
5. Blue Bird ➤ Not available

Stage 2: Market Entry

Decision:

- Closed on \$300K from Friends and Family
- Invested in Common Stock
- January 2002
- Valuation: \$2.2MM
- Next round in 6 months, valuation likely to be higher with an installed user

Stage 3 Funding Market Launch

Stage 3: Market Launch

Spring 2002: *(timeline month 12)*

- Prototype complete, seeking Beta users
- Seeking \$1.0MM
- Headcount = 6
- Burn Rate \$70K/month and growing
- Funds to be used to:
 - Further product development
 - Fund beta trials, first customer sales
 - Expand team
 - Pay for operating expenses, salaries

Stage 3: Market Launch

Options:

- Friends and Family
- Angels
- Early Stage VC
- Corporate Investor
- Blue Bird
- Other

Stage 3: Market Launch

Parameters of a deal:

- Raise \$1MM
- Company valuation \$3MM to \$4MM
- 25% to 33% ownership stake
- Industry contacts needed
- Ability to invest in future rounds needed

Stage 3: Market Launch

Options June 2002: *(timeline month 14)*

1. Friends and Family ➤ Can't fund needs
2. Angels ➤ (Did not seek)
3. Early Stage VC ➤ Lukewarm/weak reception
4. Corporate Investor ➤ \$800K available
5. Blue Bird ➤ Not available

Stage 3: Market Launch

Deal History:

- Attempting to secure first pilot site at a large money center bank
- Customer required alignment with a enterprise computing software company
- Said we had one with the leading company (we didn't)
- Called the leading company next day and asked if they wanted to be our partner at the bank

Stage 3: Market Launch

Deal History (cont'd):

- Said yes
- Offered to become company's partner
 - Joint marketing and selling
- Investigated first equity investment ever in another company
- Agreed to invest \$800K in Common Stock with lots of bells and whistles

Stage 3: Market Launch

Bells and Whistles:

- \$800K bought 20% ownership interest
- Plus an option to acquire an additional 10% interest before 1/31/04 for \$400K
- Plus price is subject to adjustment (additional 2-10%) based on 18 month revenue ending 12/31/03
- Plus investment converts into the next round (Series A) unless used pre-emptive rights to invest more \$

Stage 3: Market Launch

Decision:

- Closed on \$800K from corporate investor
- June 2002
- Valuation: \$4.0MM
- Next round in 9 months, valuation likely to be higher with customer sales momentum

Stage 4 Funding

Market Growth

Stage 4: Market Growth

Fall 2003: *(timeline month 30)*

- Prototype complete
- Completed 2 pilots, neither purchased
- Seeking customers
- No tangible results from joint marketing efforts
- Headcount = 4, down from 6

Stage 4: Market Growth

Fall 2003 (cont'd)

- Staying alive with bridge loans from Friends and Family

Bridge Loan 1	\$25K	2/03
Bridge Loan 2	\$25K	4/03
Bridge Loan 3	\$25K	8/03

- Burn Rate reduced to \$30K/month
- No salaries being paid
- Op expenses cut to the minimum

Stage 4: Market Growth

Fall 2003 (cont'd)

- Seeking \$5MM
- Funds to be used to:
 - Further product development
 - Fund first customer sales
 - Expand team
 - Pay for operating expenses, salaries

Stage 4: Market Growth

Options:

- Friends and Family
- Angels
- Early Stage VC
- Corporate Investor
- Blue Bird
- Other

Stage 4: Market Growth

Parameters of a deal:

- Raise \$5MM
- Company valuation \$10MM
- 50% ownership stake
- Industry contacts needed
- Ability to invest in future rounds required

Stage 4: Market Growth

Options December 2003: *(timeline month 32)*

1. Friends and Family ➤ Can't fund needs
2. Angels ➤ \$75K available
3. Early Stage VC ➤ Ongoing dialog,
strings attached
4. Corporate Investor ➤ Not available
5. Blue Bird ➤ Not available

Stage 4: Market Growth

Strings:

- Need a CEO
- Funding to be broken into two tranches
 - First tranche (\$2.5M)
 - funds time to find 3 customers to verify technology in production
 - Second tranche (\$2.5MM)
 - funds expansion
- Valuation too high, VC's ask for \$9MM
- Need to renegotiate deals with corporate investor and warrant holder

Stage 4: Market Growth

Decision:

- Closed on \$75K Bridge Loan from angels
- Angels received right to invest \$550K in VC round at a 20% discount
- December 2003
- Provide room to complete negotiation with VC's

Stage 4: Market Growth

Decision Part II:

- Closed on \$5.5MM VC series
- February 2004
- Valuation \$9MM to \$10MM depends on meeting milestones in next 12 months
- Tranched funding \$2.75MM now and \$2.75MM as soon as milestones are meet
- New CEO in place

Stage 4: Market Growth

Decision Part II (cont'd):

- Converted warrant holder to 5%, subject to future dilution
- Repurchased 50% of corporate investor shares for \$400K
- Corporate investor converted remaining rights and shares into \$400K of Series A shares
- Option rights and performance valuation adjustments no longer in force

Funding Recap

Funding Recap

	Months FC	Amount FC	Month Actual	Amount Actual	Delta
Stage 1	0	\$250K	3	\$225K	(3) mo. (\$25K)
Stage 2	6	\$250K	8	\$300K	(2) mo. \$25K
Stage 3	12	\$1.0MM	14	\$0.8MM	(2) mo. (\$175K)
Stage 4	24	\$5.0MM	32	\$5.5MM	(8) mo. \$325K

Current Status

- Company met milestones in 9 months
- Adjusted valuation \$10MM
- Completed second tranche funding in November 2004
- Have strong customer base
- Growing market presence
- Headcount = 14 and growing
- Strong management team

Fast Software