

Demystifying Term Sheets

January 27, 2011

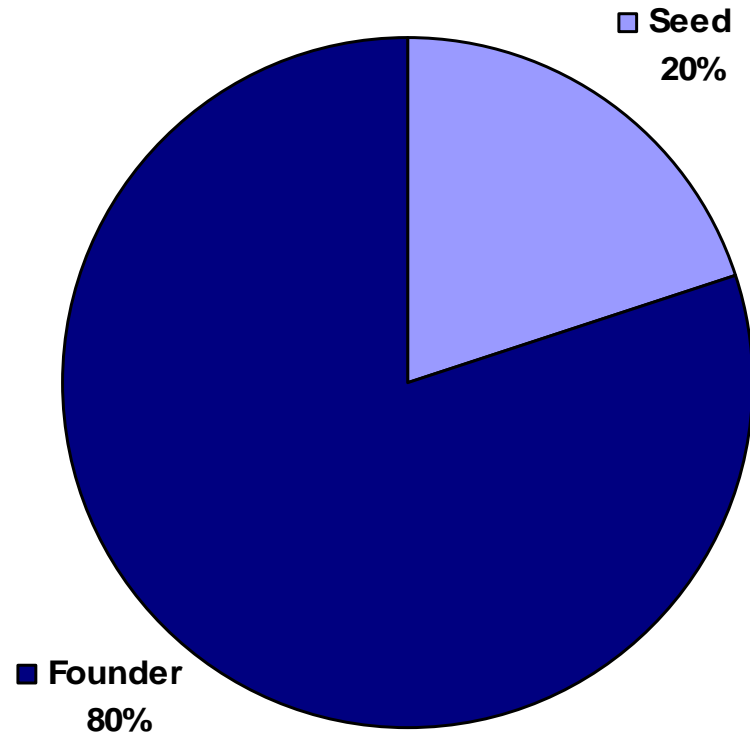


Brown Forum for Enterprise

“Valuation Metrics” by
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Initial Seed Investment

- Valuation: \$1,000,000
- New Money: \$250,000
- Total Shares: 1,250,000 @ \$1.00/sh
- Value of Founder's Shares: \$1,000,000



Series A Investment

- What do I (Company) need to raise the money?
- What should I be looking for in a Venture Capital firm?
- What is the VC looking for?
- What are the valuation metrics?



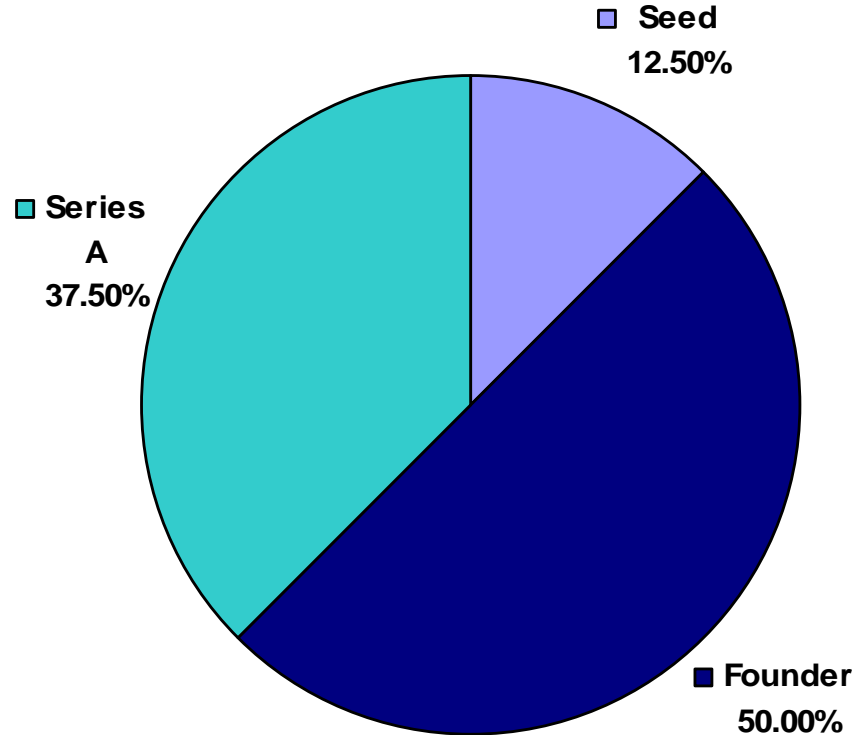
Series A Investment

- Pre-Money Valuation: \$5,000,000
- New Money: \$3,000,000
- Post Money Valuation: \$8,000,000
- Total Shares Fully Diluted

	Pre-Money	Post-Money
Common	1,250,000	1,250,000
Series A	--	<u>750,000</u>
Total	1,250,000	2,000,000

Per Share Value: \$4.00 \$4.00

- Value of Founder's Shares: \$4,000,000



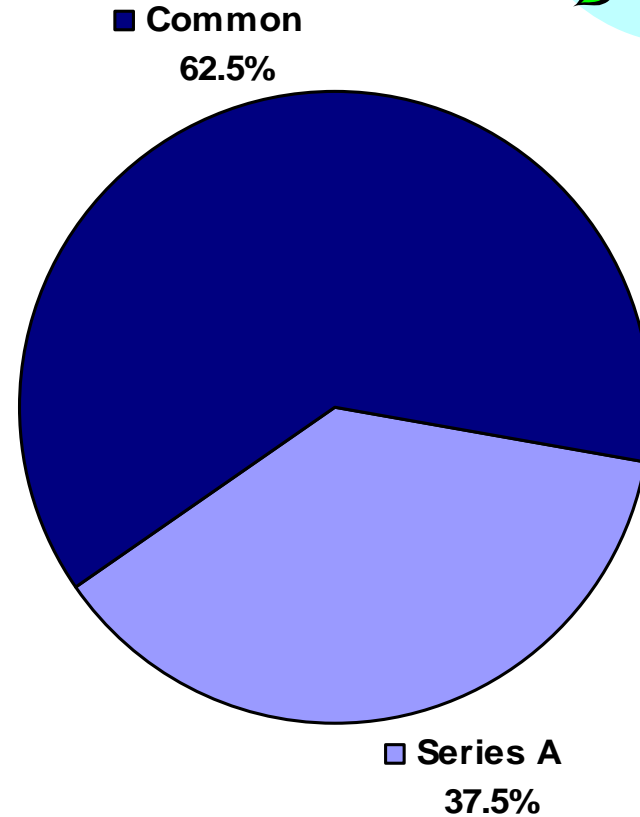
Watch Those Terms



- Proceeds on Sale: \$20,000,000

Simple Convertible

- Series A \$ 7,500,000
- Common \$12,500,000



Watch Those Terms



- Proceeds on Sale: \$20,000,000

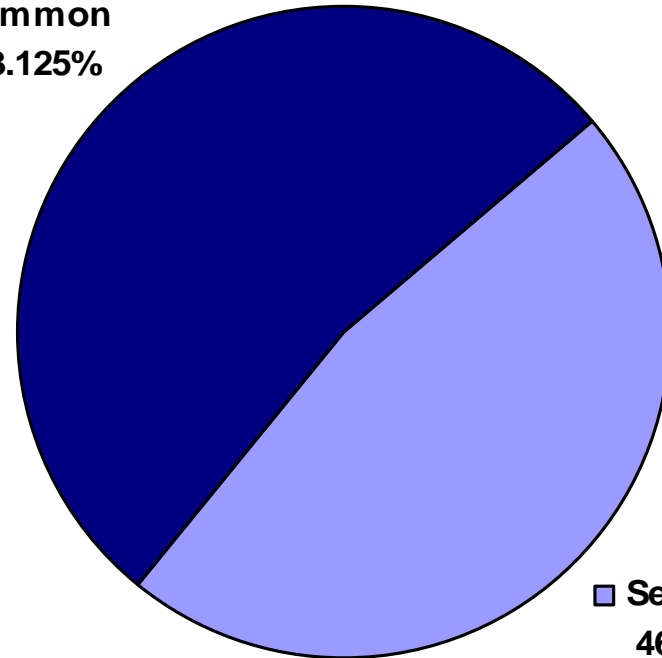
Participating Preferred

Series A

- Preference \$3,000,000
- Participation \$6,375,000
 - Total \$9,375,000

Common \$10,625,000

■ Common
53.125%



□ Series A
46.875%

Watch Those Terms



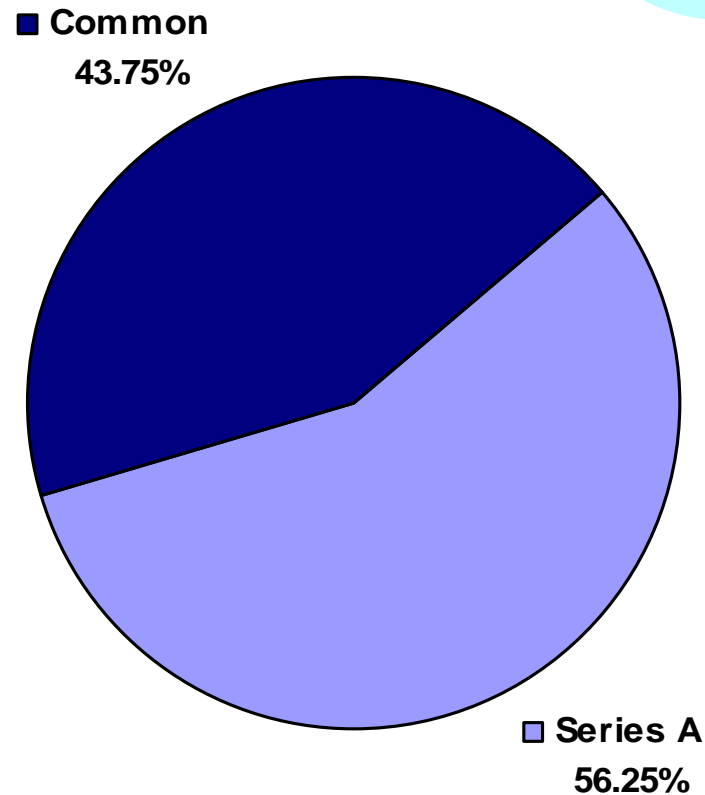
- Proceeds on Sale: \$20,000,000

“Double Dip” Preferred

Series A

- Preference \$ 6,000,000
- Participation 5,250,000
 - Total \$11,250,000

Common \$ 8,750,000



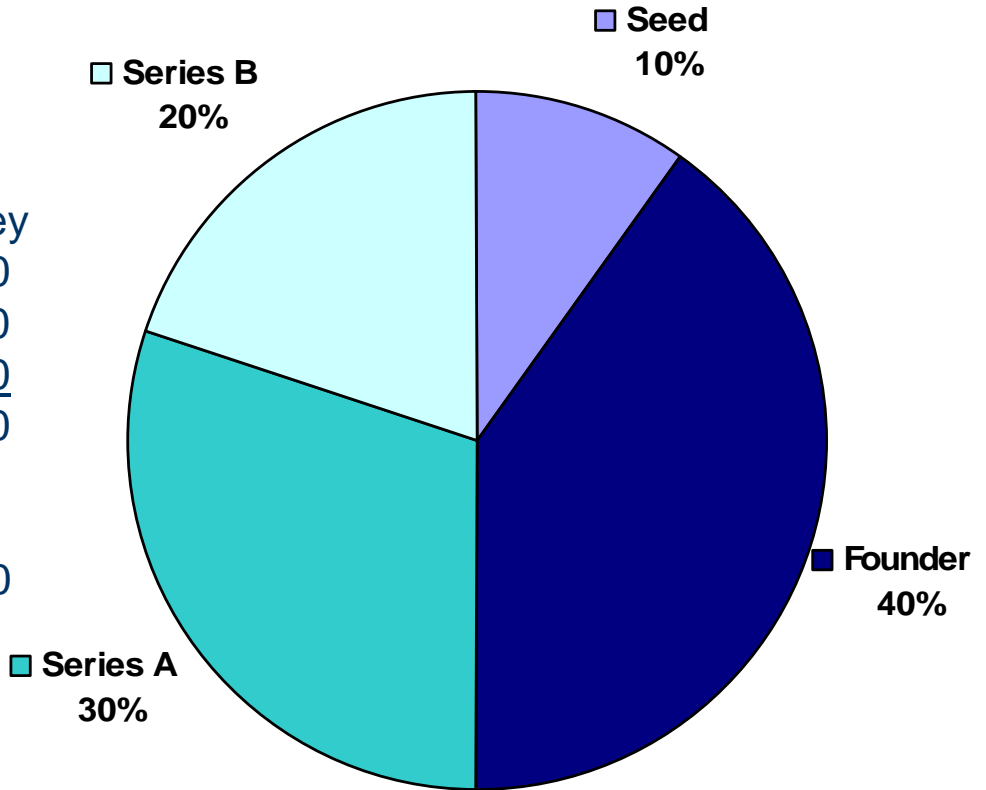
Series B Up Round

- Pre-Money Valuation \$16,000,000
- New Money: \$4,000,000
- Post-Money Valuation: \$20,000,000
- Fully Diluted Shares:

	Post-Money	Pre-Money
Common	1,250,000	1,250,000
Series A	750,000	750,000
Series B	<u>--</u>	<u>500,000</u>
Total:	2,000,000	2,500,000

Per Share		
Value:	\$8.00	\$8.00

- Value of Founder's Shares: \$8,000,000



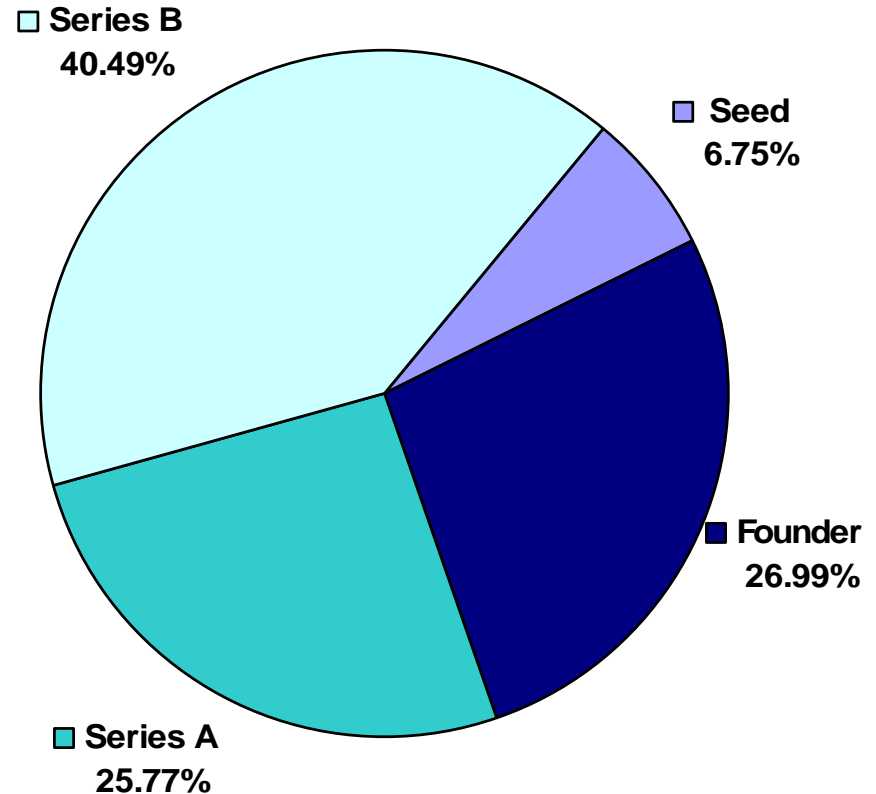
Series B Down Round Weighted Average Anti-Dilution

- Pre-Money Valuation: \$4,000,000
- New Money: \$3,000,000
- Post-Money Valuation \$7,000,000
- Fully Diluted Shares:

	Pre-Money	Post-Money
Common	1,250,000	1,250,000
Series A	750,000	954,545
Series B	--	<u>1,500,000</u>
Total:	2,000,000	3,704,545

Per Share Value: \$2.00 \$1.90

- Value of Founder's Shares:
\$1,900,000



Series B Down Round

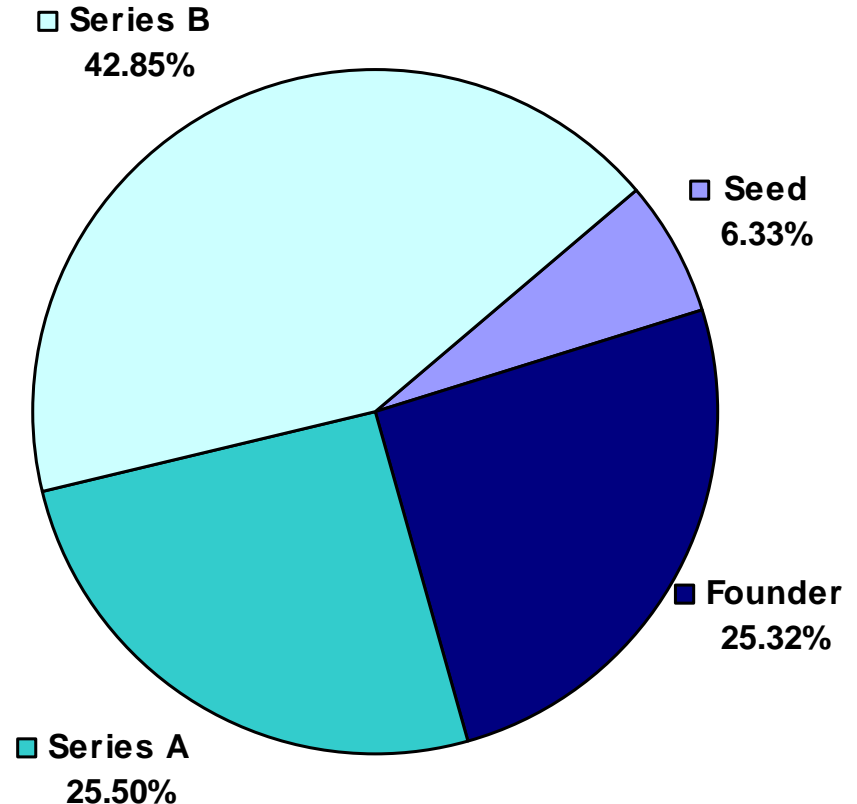
Weighted Average Anti-Dilution (Maintaining “Target” Percentage)

- Pre-Money Valuation: \$4,000,000
- New Money: \$3,000,000
- Post-Money Valuation \$7,000,000
- Fully Diluted Shares:

	Pre-Money	Post-Money
Common	1,250,000	1,250,000
Series A	750,000	1,007,050
Series B	<u> -- </u>	<u>1,692,000</u>
Total:	2,000,000	3,949,050

Per Share Value: \$2.00 \$1.773

- Value of Founder’s Shares: \$1,773,000



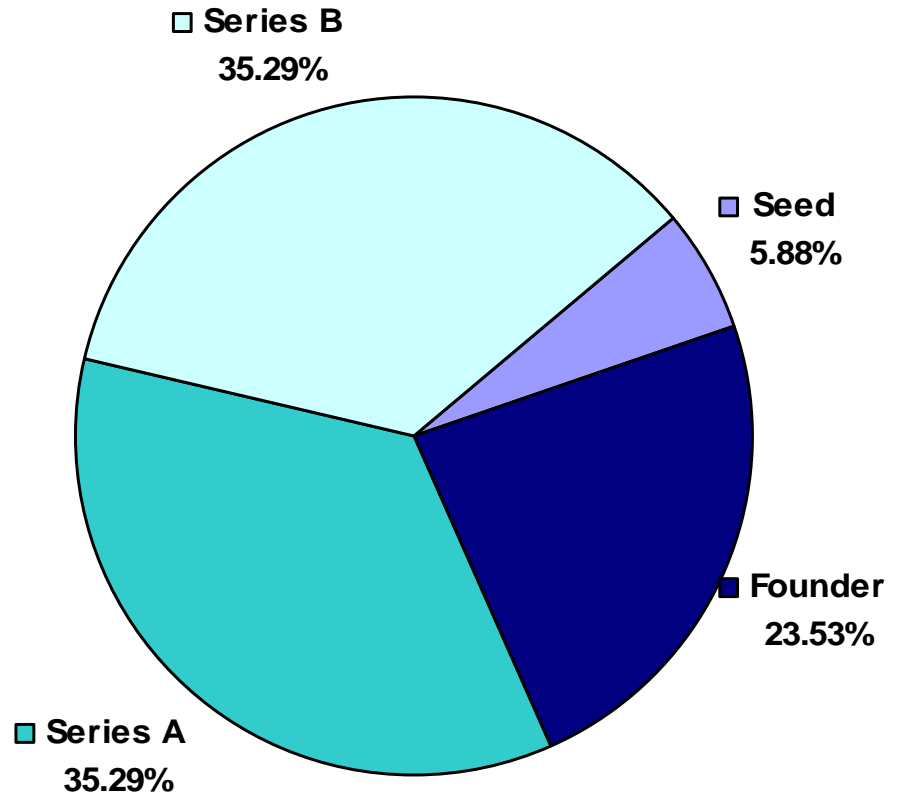
Series B Down Round Full Ratchet Anti-dilution

- Pre-Money Valuation: \$4,000,000
- New Money: \$3,000,000
- Fully Diluted Shares

	Pre-Money	Post-Money
Common	1,250,000	1,250,000
Series A	750,000	1,500,000
Series B	--	<u>1,500,000</u>
Total:	2,000,000	4,250,000

Per Share Value: \$2.00 \$1.647

- Value of Founder Shares:
\$1,647,000



Series B Down Round

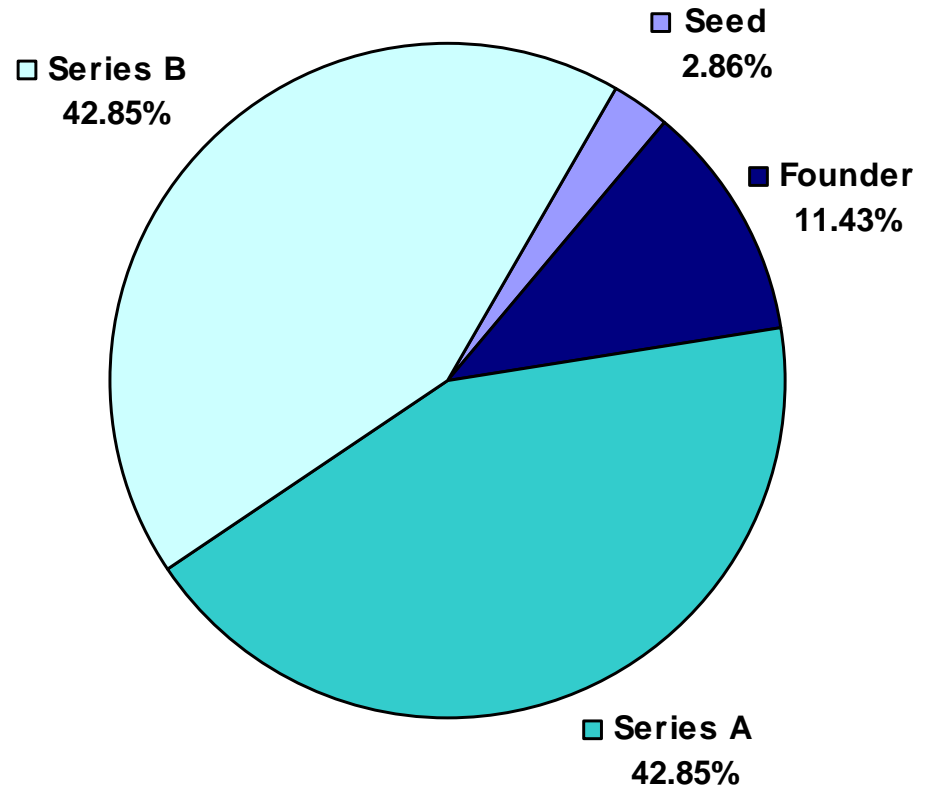
Full Ratchet Anti-dilution (Maintaining "Target" Percentage)

- Pre-Money Valuation: \$4,000,000
- New Money: \$3,000,000
- Fully Diluted Shares

	Pre-Money	Post-Money
Common	1,250,000	1,250,000
Series A	750,000	3,750,000
Series B	--	<u>3,750,000</u>
Total:	2,000,000	8,750,000

Per Share Value: \$2.00 \$.80

- Value of Founder Shares: \$800,000



Margaret D. Farrell, Esq.



- **Margaret D. Farrell** is a Partner with Hinckley, Allen & Snyder LLP and Chairs the firm's Securities Practice Group. Her practice is concentrated in the area of corporate and securities law with extensive experience in organization, mergers and acquisitions, recapitalizations and other reorganizations of both public and privately-held corporations, partnerships and limited liabilities companies, and in personal and business tax planning. She has extensive experience in handling equity and debt securities offerings, both fully registered public offerings and exempt private placements and venture capital financings as well as ongoing SEC regulatory compliance and reporting. She received her B.A., *cum laude*, from Smith College and her J.D. from the University of Cincinnati, where she was a member of Order of the Coif and Note Editor of the Law Review. She is currently listed in Woodward/White Inc.'s *Best Lawyers in America* and Chambers & Partners' *USA Guide to America's Leading Lawyers for Business*.

Hinckley, Allen & Snyder LLP



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