FANTASYNET VENTURE CAPITAL TERM SHEET NEGOTIATION

Dennis Zocco, University of San Diego

CASE DESCRIPTION

In this New Venture Finance case, Tim Bayliss, founder, CEO, and sole shareholder of FantasyNet, has received a term sheet from Ann Davenport, a General Partner in the venture capital firm of Chestnut Ridge Ventures (CRV), for an investment of $8 million in his company. Tim had never seen a term sheet before and felt he needed advice in evaluating that document in preparation for his upcoming negotiation with Ann. Tim engaged the services of his accounting firm to advise him on the implications of the provisions in the term sheet and to assist in the negotiation. That engagement resulted in a memorandum to Tim that included explanations and recommendations for each element of the term sheet. Tim planned to use those recommendations as a basis for his negotiation with Ann to reach agreement on CRV's investment in FantasyNet.

Keywords: Financing, Venture, Entrepreneurship, Governance, Valuation, Equity

CASE SYNOPSIS

This entrepreneurial finance negotiation case was written to be used in both undergraduate and graduate courses. The rigor and depth of material may be adjusted to reflect the skill and background of the student audience. However, the issues are meaningful and relevant to the learning experience of both undergraduates and graduates. This case primarily is designed to be used in 1) a case course in Entrepreneurial Finance or Entrepreneurship or 2) as a supplemental exercise in a non-case course in Finance or Private Equity, or 3) in a negotiations course in a business or law school. It is an experiential learning exercise based on the application of sound integrative negotiating techniques. If the case is used in a finance course, students will negotiate using their instinctive negotiating skills. The instructor can assign one or more of the following readings on basic negotiating skills: Bartlett, 1999; Landstroem et al., 1998. A short primer on negotiating technique also is included in the PowerPoint Slides Section of this Teaching Note. If the case is used in a negotiations course, the instructor can assign the following venture finance basic understanding readings from the list of references: Bartlett, 1995; Berlin, 1998; Pearce and Barnes, 2006; Smith and Smith, 2000; Zider, 2000. Students who have had a fundamentals course in finance will be able to understand the valuation elements of this case.

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General Information

Tim Bayliss, founder and sole owner of FantasyNet, Inc., entered negotiations with Ann Davenport, a General Partner at Chestnut Ridge Ventures (CRV), without ever seeing a term sheet. The last three weeks have been a crash course in venture capital financing with much of it an exciting learning experience. Tim's journey to the term sheet negotiation started one afternoon when he was at his booth at the Online Social Networking Conference in Miami. Ann had been walking the aisles, watching the internet-based products being displayed and speaking to the entrepreneurs displaying their sites. Ann thought several looked promising, but when she arrived at Tim's exhibit, she became very interested in his product and his company, which surprised her. The product was FantasyNet, an online social networking site that focused on players participating in the various world-wide fantasy sports leagues.

Ann knew nothing about fantasy sports except that most of the men in her life – her boyfriend, her two brothers, her brother-in-law, and many of her associates at CRV – were passionately involved in it. Even her sister had both a baseball and football fantasy team. Family reunions inevitably turned into a fantasy sports conversation, often heated. Some members of her firm never scheduled travel during a "draft week." One of those members, Jeff Engler, a Research Associate, has experience and knowledge in the online space. She asked him to be part of the team that would evaluate FantasyNet as a potential investment.

Ann was equally interested in the founder of FantasyNet. Tim Bayliss earned a Master of Engineering in Electrical Engineering and Computer Science from MIT's famous five-year Course 6 program and then, after a three-year stint with Microsoft, earned an MBA from Harvard. He worked for McKinsey for several years after Harvard, consulting for firms such as Google and Facebook. While at McKinsey he found the consulting he did for companies frustrating, as he guided his client companies so far and then had to leave for another assignment just as the fun was beginning in carrying out his recommendations and experiencing the results. He decided to leave McKinsey and the consulting business in early-2005 and had offers from many of his client companies as well as several venture capitalists who were investors in those companies. His decision as to which side of the table was right for him was a difficult one. On one side of the table, venture capitalists select companies to which they provide funding and then sit back and watch to see if their investment was successful. On the other side, entrepreneurs accept funding in exchange for an ownership stake in their company and then do their best to make their company a success. He made his decision quickly. He wanted to be an entrepreneur, to recognize a business opportunity and then develop a business to address that opportunity. He had found his passion and his challenge.

Tim knew that venture capitalists prefer to invest in scalable companies in high growth industries run by competent leaders and managers. His advanced education in computer science gave him the background and knowledge to take advantage of opportunities in the software field. His research pointed him to several internet-based niches, the hottest of which was social

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networking. Sites (with start dates) such as Match (1993), Ryze (2001), MySpace (2003), Fickr (2004), and Facebook (2004) as well as the more niche-specific new startups Jobai, Tarmac, and Triptic (*All are actual sites except for Jobai, Tarmac, and Triptic, which are fictitious and added in order to provide comparable financial performance metrics to FantasyNet.*) were successfully building their member base. Tim knew that behaviorally, these sites were satisfying a real need of people to communicate with friends, old and new, and link with others of similar interests. He wondered which interests were yet to be addressed and would those untapped interests provide enough participants around which to build a viable business.

Then one evening he stopped for dinner at one of the sports bars near his home and discovered that most of the space was taken by a fantasy football draft, with nearly 300 attendees making draft picks from large television screens throughout the bar. He spoke with many of the participants and found that, without exception, they all possessed passion, excitement, and intensity directed toward a common goal – drafting a winning football team. Several different fantasy leagues were represented, but everyone was living the fantasy of being a real team owner and general manager. He was told that the intensity grew as each season progressed.

When he arrived home, he immediately searched for fantasy league social networking sites and found a few, but they were crude. Over the next few days, he spent every waking hour doing research on fantasy sports, learning all he could about what drives so many people to passionate participation. As the days progressed his excitement grew, and at the end of his fourth day of research, he had decided on his new venture. He quickly developed a sense of urgency, however, as he imagined there were other entrepreneurs with the same idea. He believed that quick execution was the key, and he started on his new venture the next day and had FantasyNet up and running in one month. One of the first decisions he made was to ask his close friend and mentor, Ray Katrinak, a retired, successful serial entrepreneur, to serve with him on a two-person Board of Directors for FantasyNet.

Ann was impressed with the story of Tim's journey to his new venture. Given his education and work experience with McKinsey, he could have chosen a very lucrative and safe career path, but he chose to follow his passion. She also liked the fact that at no time in their initial conversations did he once mention that he was in it to get rich. She felt that his real goal was to prove to himself that he could make his business idea a success, and to her that was a big positive for an entrepreneur.

Ann and Tim exchanged business cards at the trade show and a few weeks later, Ann called Tim to ask him to lunch so they could talk more. He was pleased to hear from her and invited her to his company in the Brighton neighborhood of Boston prior to lunch. His company was located in a renovated warehouse with no offices, just cubicles with programmers clustered by function. Now four years into operations, FantasyNet had twenty-six employees, most of them programmers. Tim had a cubicle just like everyone else. Ann liked the frugal nature of Tim's entrepreneurship, using each dollar wisely to create value in his company. She was sure he would have the same respect for investors' dollars.

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Prior to arriving for lunch, Jeff had updated Ann on the world of fantasy sports. Fantasy sports leagues exist for every organized sport, from professional and college football and basketball to baseball, golf, hockey, and NASCAR. The industry is also international, with fantasy soccer and cricket leagues popular in Europe. According to the Fantasy Sports Trade Association, 29.9 million people age 12 and above in the U.S. and Canada play fantasy sports, up 54 percent from 19.4 million a year before. Growth in people playing fantasy sports has grown at a 33 percent rate since the early 90s. A recent study showed 22 percent of U.S. adult males 18 to 49 years old with Internet access play fantasy sports. The financial impact of the industry is substantial. Consumers spend $800 million annually on fantasy sports-related products, with an additional $3-$4 billion on media products related to the activity. After their meeting, Ann invited Jeff to accompany her to lunch with the owner of FantasyNet the next day.

The Lunch Meeting

At lunch, Tim learned that Ann had grown up in a neighboring Drexel Hill suburb of Philadelphia, the city where he spent his childhood. She received her MBA from Wharton and then been part of the management team at several startup software companies that went public during the late 1990's before the crash. CRV had been an investor in two of the companies she had worked for and the firm hired her five years ago and made her a partner last year.

He also learned that Jeff had grown up in the entrepreneurial hotbed of Menlo Park, California. His father was a successful entrepreneur, now retired. Jeff received his business degree from Stanford and had his idea for his first company before he graduated. He followed in his father's footsteps as a successful entrepreneur, starting two companies in the internet space, one providing the infrastructure for online sporting event reservations and the other one of the first online social networking sites for music professionals. Both companies were sold at the height of their success, providing a substantial return on investment for Jeff and the investors in those companies. CRV was an investor in his second company. The CRV partners recognized the vision and entrepreneurial insights that Jeff possessed and asked him to join the firm immediately upon the sale of his second company. Tim saw many common traits and experiences he had with Jeff and was glad that Ann had included him in their lunch.

At that lunch, Ann told Tim that CRV was interested in making an investment in his company and asked how much he felt was needed to grow revenue and earnings in the 40-50% range and to integrate a mobile platform so that network members can join leagues, draft and trade players, and monitor the performance of their players, teams, and league standings from their cell phone. Tim replied that to achieve revenue and earnings growth and site capability expansion of that nature his company would need $8 million. Ann said that upon a successful due diligence and agreement by both parties on the terms of such an investment, CRV would be willing to invest $8 million in FantasyNet with a target date for the investment of February 15,

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2010. They agreed that due diligence would start immediately, with Jeff heading the due diligence team. Tim promised to open his company to CRV's due diligence team.

Due Diligence and the Term Sheet

CRV found that in 2009, FantasyNet had captured 1.6 million of the 29.9 million people who play fantasy sports. Revenue from sports league memberships, fantasy sports-related purchases commissions, and advertising totaled $6.474 million. Earnings before interest, taxes, depreciation, and amortization (EBITDA) were $3.366 million and net income totaled $2,175 million. The 33.6% net profit margin and the scalability of the company in a growing industry made FantasyNet an attractive investment for CRV.

Ann drew up the firm's standard term sheet (Exhibit A). To determine the share price and CRV's equity stake in FantasyNet, she used a pre-money valuation of $16.830 million and a post-money valuation of $24.830 million. At that post-money valuation, the $8 million investment by CRV would result in a 32.22 percent ownership interest. Currently, two million common shares are outstanding with Tim the sole owner. Therefore, CRV would be buying 950,683 Series A Preferred shares at $8.415 per share, diluting Tim's ownership from 100% to 67.78%.

Tim had never seen a term sheet before Ann had given it to him two weeks after their initial lunch. She explained to him that it will likely be a confusing and somewhat formidable document on first reading, but that she would be willing to spend time with him explaining each paragraph so that he would be comfortable signing it. Tim thanked her for the term sheet and asked that he have a week to study it before they discussed it. She agreed and they made arrangements for their next meeting.

That evening, Tim read through the term sheet, understanding some parts but not all. He decided that he needed professional counsel. The accounting firm he used for normal accounting services has a consulting division that specializes in private company financing. Tim arranged a phone conversation with Connie Sayler, an experienced associate in that area. Connie agreed to look at the term sheet and provide comments on the terms of CRV's investment in FantasyNet. Two days later, Tim received Connie's memorandum (Exhibit B).

During the week prior to meeting with Ann, Tim spent considerable time thinking about having CRV as an investor. They were a prestigious venture capital firm, with many successful companies in their portfolio. He believed they could offer him more than just the $8 million investment. He was certain they could provide business networking and executive search opportunities as well as valuable advice on key business decisions. Yet he wanted to be careful that he did not give preferred share terms so investor-friendly that it would hinder the future growth potential and funding opportunities.

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The Term Sheet Memorandum

In addition to studying Connie's comments, he did his own research on the concepts he found in the terms sheets, such as liquidity preference, redemption, anti-dilution provisions, exclusivity, and more. He wanted to be well-prepared to negotiate terms that would result in a term sheet of value to both FantasyNet and CRV and also that would allow him flexibility to grow his company.

Tim discussed the upcoming negotiation with Connie. He told her that since an agreement on some form of the term sheet would represent an ongoing ownership relationship with CRV, he would like to set the tone for that relationship and be open with Ann concerning the comments made by Connie on the term sheet. In fact, he decided ask Connie to assist him in the negotiations and also to show Connie's memorandum to Ann so that there would be no confusion regarding his bargaining positions. Connie agreed and told Tim that she looked forward to assisting him in the negotiation. Tim told her that he was enthusiastic about the funding but that there would have to be some give-and-take with CRV on the terms of the terms sheet for the investment to make sense.

When Ann received a copy of Connie's memorandum from Tim, she knew that the negotiations were going to be very interesting. Most entrepreneurs enter the negotiations with incomplete knowledge of the implications to them of each of the provisions of the term sheet. That presents somewhat of a dilemma for her in that it is the entrepreneur's responsibility to be aware of those implications, but Ann was never comfortable with coming to an agreement on the term sheet if the entrepreneur does not have a complete understanding of the terms. So she always does her best to explain each paragraph to them. Even so, her responsibility to the investors in her firm is to make the best deal possible for each investment. In those negotiations, she is faced with the task of balancing those interests.

However, in the upcoming negotiation on the FantasyNet term sheet, Connie Sayler's memorandum indicated to Ann that Tim understood the term sheet and the issues that were going to be on the table in the negotiations. She was thankful for that even though she anticipated that the negotiation will be rigorous. She felt that having Jeff as a partner in the negotiation would be valuable to her since Jeff had been involved from the beginning of the process, had established a working relationship with Tim throughout the due diligence process, and previously had participated in term sheet negotiations from both sides of the table.

Both parties have a strategy session planned after which they anticipate a productive term sheet negotiation.

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EXHIBIT A.

FANTASYNET / CHESTNUT RIDGE VENTURES TERM SHEET
Memorandum of Terms for Private Placement of Equity Securities

Chestnut Ridge Ventures ("Investor") is pleased to indicate its willingness, subject to the terms and conditions of this term sheet to purchase up to $8 million of Series A Preferred Stock to be issued by FantasyNet (the "Company").

New Securities Offered: Newly issued convertible, redeemable preferred stock ("Preferred Stock"). At any time at the option of the holders of a majority of the Preferred Stock, the Preferred Stock will convert into 32.22% of the fully-diluted common equivalent ownership of the Company, subject to the conversion and anti-dilution provisions below.

Total Amount Raised: $8 million

Number of Shares: 950,683

Purchase Price per Share: $8.415

Post-Financing Capitalization: The fully-diluted pro-forma capitalization table immediately following the closing shall be as follows:

	Shares Outstanding	% Ownership
Founder (Common Stock): Tim Bayliss	2,000,000	67.78%
Investor (Preferred Stock): Chestnut Ridge Ventures	950,683	32.22%
Total Common Equivalent:	2,950,683	100.00%

Use of Proceeds: The proceeds to the Company will be used to: (i) fund up to $8 million for working capital purposes and (ii) pay the fees and expenses associated with the transaction.

Dividends: The holders of the Series A Preferred shall be entitled to receive cumulative dividends in preference to any dividend on the Common Stock at the rate of 15 percent of the Original Purchase Price annually, compounded monthly. The holders of Series A Preferred also shall be entitled to participate pro rata in any dividends paid on the Common Stock on an as-converted basis.

Liquidation Preference: Upon (i) a sale of all or substantially all the assets of the Company (an "Asset Sale"), (ii) a merger or consolidation of the Company with or into any other entity, in which the combined owners of Common and Series A Preferred shareholders of the Company immediately prior to such merger or consolidation, own less than 50% of the voting power after such merger or consolidation (a "Merger") or (iii) a liquidation, dissolution or winding down of the business (a "Liquidity Event"), holders of the Series A Preferred shares will receive, in preference to holders of all Common shares, an amount equal to two times (2X) the original purchase price plus any accrued or declared but unpaid dividends. After the payment of the Liquidation Preference to the holders of the Series A Preferred, the remaining assets shall be distributed ratably to the holders of the Common Stock and the Series A Preferred on a common equivalent basis.

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Redemption: At the election of the holders of at least a majority of the Series A Preferred stockholders, the Company shall redeem the Series A Preferred Stock at three times (3X) the investment amount plus any accrued or declared but unpaid dividends upon the first to occur of (a) a Liquidity Event (as defined above); or (b) the fifth anniversary of the investment.

Anti-dilution Provision: The Series A Preferred shares will have anti-dilution protection on a full-ratchet basis to prevent dilution in the event the Company issues shares of any type at a purchase price less than the applicable conversion price for Series A Preferred shares in effect. The conversion price will also be subject to proportional adjustment for stock splits, stock dividends, recapitalizations, and the like.

Conversion: The holders of the Series A Preferred shall have the right to convert the Series A Preferred, at any time, into shares of Common Stock. The initial conversion rate shall be 1:1, subject to adjustment as provided below.

Automatic Conversion: The Series A Preferred shall be automatically converted into Common Stock, at the then applicable conversion price, (i) in the event that the holders of at least two thirds of the outstanding Series A Preferred consent to such conversion or (ii) upon the closing of a firmly underwritten public offering of shares of Common Stock of the Company at a per share price not less than seven (7) times the Original Purchase Price per share and for a total offering with net proceeds to the Company of not less than $140 million (a "Qualified IPO").

Voting Rights: The Series A Preferred will vote together with the Common Stock and not as a separate class except as specifically provided herein or as otherwise required by law. Each share of Series A Preferred shall have a number of votes equal to the number of shares of Common Stock then issuable upon conversion of such share of Series A Preferred.

Protective Provisions: For as long as any shares of Series A Preferred remain outstanding, consent of the holders of at least a majority of the Series A Preferred shall be required for any action, whether directly or through any merger, recapitalization or similar event, that (i) alters or changes the rights, preferences or privileges of the Series A Preferred, (ii) increases or decreases the authorized number of shares of Common or Preferred Stock, (iii) creates (by reclassification or otherwise) any new class or series of shares having rights, preferences or privileges senior to or on a parity with the Series A Preferred, (iv) results in the redemption or repurchase of any shares of Common Stock (other than pursuant to equity incentive agreements with service providers giving the Company the right to repurchase shares upon the termination of services), (v) results in any merger, other corporate reorganization, sale of control, or any transaction in which all or substantially all of the assets of the Company are sold, (vi) amends or waives any provision of the Company's Certificate of Incorporation or Bylaws, (vii) increases or decreases the authorized size of the Company's Board of Directors, or (viii) results in the payment or declaration of any dividend on any shares of Common or Preferred Stock, or (ix) issuance of debt in excess of $100,000."

Registration Rights: The holders of Preferred Stock will be entitled to one demand registration. Once the Company is eligible to register its securities for sale on Form S-3, the holders of Preferred Stock will have rights to two registrations per year on Form S-3, provided that such registrations will not be for less than $250,000. After the initial public offering, the holders of Preferred Stock will have unlimited piggyback registration rights if the Company effects a registration of shares for its own account or the account of another person. The Company will bear the expenses of such demand, S-3 and piggyback registrations, other than the underwriters' commission.

Board of Directors. The size of the Company's Board of Directors will initially be set at a maximum of three members elected as follows: (i) one director by the Preferred Stock, (ii) one director by the Company, and (iii) the remaining director will be mutually agreed upon by the Preferred Stock and the common stockholders. The Company will reimburse non-employee directors for all out-of-pocket expenses incurred in attending board and

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committee meetings, as well as provide customary compensation including a right to receive options and similar equity interests on the same basis as directors elected by the company. Furthermore, upon any failure of the Company to redeem the Preferred Stock or pay debts when due, or upon the acceleration of any debt, the majority of the holders of the Preferred Stock will be entitled to designate additional members of the Board such that the designees of the holders of the Preferred Stock constitute a majority of the Board.

Information Rights: The Company will provide to the Investor audited annual financial statements, audited by an accounting firm of selected by Investor, and unaudited quarterly financial statements. In addition, the Company will furnish the Investor with monthly and quarterly financial statements and will provide a copy of the Company's annual operating plan within 30 days prior to the beginning of the fiscal year. In addition, the Company will make available, without limitation, all internal management documents, reports of operations, reports of adverse developments, copies of any management letters, communications with shareholders or directors and press releases and registration statements as well as access to all senior managers as requested by holders of Series A Preferred Stock. Each Investor shall also be entitled to inspection and visitation rights once per quarter.

Right of First Refusal: Investors shall have the right in the event the Company proposes to offer equity securities to any person (other than securities issued pursuant to employee benefit plans or pursuant to acquisitions) to purchase on a pro rata basis all or any portion of such shares. Any securities not subscribed for by an eligible Investor may be offered to other parties on terms no less favorable to the Company for a period of sixty (60) days. Such right of first refusal will terminate upon a Qualified IPO.

Co-sale Agreement: The shares of the Company's securities held by the principal stockholders will be made subject to a co-sale agreement so that such stockholders may not transfer, sell, or exchange their stock unless each holder of Preferred Stock has the opportunity to participate in such transfer on a pro-rata basis.

Bring Along Right: If an unaffiliated third party makes a bona fide offer for all or substantially all of the stock or assets of the Company for a purchase price that is not less than $50 million and the majority of holders of the Preferred Stock desire to sell, the remaining stockholders will have 15 days to match the offer and, failing their ability to do so (with financing in place), they will sell their shares on the same terms and conditions or vote with the holders of the Preferred Stock to sell the assets of the Company.

Stock Vesting: All stock and stock equivalents issued after the Closing to employees, directors, consultants and other service providers will be subject to vesting provisions below unless different vesting is approved by the majority (including at least one director designated by the Investors) consent of the Board of Directors (the "Required Approval"): 25% to vest at the end of the first year following such issuance, with the remaining 75% to vest monthly over the next three years. In the event of a merger, consolidation, sale of assets or other change of control of the Company and should an Employee be terminated without cause within one year after such event, such person shall be entitled to one year of additional vesting. Other than the foregoing, there shall be no accelerated vesting in any event.

Closing Fee: Three percent (3%) of invested funds to Investor at closing.

Expenses: The Company will bear the fees and expenses of the Investor and of the Company incurred in connection with this transaction at the closing. The Company shall provide the Investor with a non-refundable retainer of $35,000 to begin drafting legal documentation and commence due diligence.

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Exclusivity: For a period of 90 days after the execution of this term sheet, the Company and each principal stockholder of the Company (i) will deal exclusively with the Investor in connection with the issue or sale of any equity or debt securities or assets of the Company or any merger or consolidation involving the Company, (ii) will not solicit, or engage others to solicit, offers for the purchase or acquisition of any equity or debt securities or assets of the Company or for any merger or consolidation involving the Company, (iii) will not negotiate with or enter into any agreements or understandings with respect to any such transaction and (iv) will inform the Investor of any such solicitation or offer and the terms thereof.

Publicity: Any press release or other public statement issued by any party relating to this letter or the transactions contemplated will be approved in advance by all parties and will contain appropriate references to each such party who desires such references. In addition, the Company shall not use the Investor's name in any manner, context or format (including, reference on or links to websites, press releases, etc.) without the prior review and approval of Investor.

Non-Binding: This is neither an offer nor a binding commitment, other than as set forth under the headings "Expenses", "Exclusivity", and "Publicity." A binding commitment will only be made pursuant to the execution of a definitive purchase agreement and related documents mutually acceptable to all parties.

Tim Bayliss, Chief Executive Officer Date
FantasyNet

Ann Davenport, Managing Partner Date
Chestnut Ridge Ventures

EXHIBIT B.

Accounting Firm Consulting Memorandum on FantasyNet / Chestnut Ridge Ventures Term Sheet

To: Tim Bayliss
From: Connie Sayler, Venture Financing Consultant
RE: FantasyNet / Chestnut Ridge Ventures Term Sheet Comments

In response to your request for comments on the Chestnut Ridge Ventures (CRV) term sheet presented to you, please see below. My comments are to be used only to provide insights into the meaning and potential impact of the noted paragraphs and are not to be considered legal advice in preparing the final version of the term sheet. Paragraphs not addressed in the comments below are standard and will require no or very little negotiation. Please note that some of the provisions are standard, so don't waste too much time in trying to keep them out. A better strategy is to 1) negotiate those provisions that have a potential adverse impact on how the company is managed as well as the value maintained by common stockholders and 2) successfully manage the company so that any provisions adverse to the common stockholder (you) won't be invoked. Please be aware that the term sheet is a non-binding document except for the provisions noted in the "Non-Binding" paragraph.

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Valuation: The initial segment of the term sheet concerns the pricing of the shares bought by CRV with their $8 million investment. The valuation of any private or public company is subjective. Publicly-traded companies have an exchange-based value that may or may not provide a reasonable value of the company. Shares of publicly-traded companies are traded throughout any day the market is open, so the share prices can be seen as the market constantly shifts its value-perception of the company. However, shares of private companies such as FantasyNet are not traded publicly, so the only time a share price is determined is when a transaction like the CRV purchase of preferred shares takes place. At that time, an agreement is made on the value of the company which determines the share price. That valuation is the most critical element to be negotiated. If an agreement cannot be made on an appropriate valuation for the transaction, there is no need to negotiate the remaining provisions of the term sheet.

As the term sheet shows, CRV is purchasing 950,683 preferred shares at $8.415 per share for 32.22% of the company. To understand how CRV determined these figures, two forms of the FantasyNet valuation are in play – pre-money valuation and post-money valuation. Pre-money valuation is the value of FantasyNet before the investment is made. Post-money valuation is simply the pre-money valuation plus the amount invested. There are several methods to determine pre-money valuation, and the one most often used is the EBITDA (Earnings before Interest, Taxes, Depreciation, and Amortization) multiple method.

To find the EBITDA multiple CRV used to value FantasyNet, we need to perform a few calculations. Since CRV used 2009 as the latest twelve-month period for which an actual EBITDA exists, we can use that 2009 EBITDA of $3,366,000 as the basis for the valuation applicable to the CRV term sheet. As CRV is valuing the shares at $8.415 and we are initially calculating the pre-money valuation (without the CRV investment), we can find the pre-money valuation as the product of the share price ($8.415) and the number of shares outstanding (2,000,000) before the investment.

(Eq. 1) Pre-money Valuation = Share price x Shares outstanding before investment
= $8.415 x 2,000,000 shares
= $16,830,000.

Therefore, the EBITDA Multiple can be found using the following equation:

(Eq. 2) EBITDA Multiple = Pre-money Valuation / EBITDA
= $16,830,000 / $3,366,000
= 5

The EBITDA multiple embodies the expected future financial and value-creation performance of the company. Higher expectations of future performance would justify a higher multiple. From the information we have concerning investment transactions within the last six months in the social networking space, we have found a range of 5 to 7 for EBITDA multiples used to determine pre-money valuations. Financial metrics for FantasyNet and a sample of companies comparable to FantasyNet are shown below in Exhibits C through G.

The EBITDA multiple of 5 that CRV used is at the lower end of the range. Agreement on the appropriate multiple in valuing FantasyNet will be a major point to negotiate, as a higher multiple would increase the pre-money valuation and therefore result in CRV paying a higher price for FantasyNet preferred shares and receiving a lower percentage of the company for their $8 million investment.

Post-money valuation is the pre-money valuation plus the investment amount:

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(Eq. 3) Post-money Valuation = Pre-Money Valuation + Investment Amount
= \$16,830,000 + \$8,000,000
= \$24,830,000

The percentage of the company purchased with that \$8 million investment is found by dividing the investment by the post-money valuation:

(Eq. 4) Percent of company purchased by CRV = Investment / Post-money valuation
= \$8,000,000 / \$24,830,000 = .3222
= 32.22%

Of course, this means that you, as sole common stockholder, own the remaining 67.78% of the company.

To determine the number of preferred shares purchased by CRV with their \$8 million investment, we can use the following equation:

(Eq. 5) Shares purchased by CRV = [CRV ownership in decimal / (1 – CRV ownership in decimal)] x Shares outstanding before investment
= [.3222 / (1-.3222)] x 2,000,000 = 950,683 shares

Dividends: Dividends in a term sheet are called "juice" to the deal. The reason CRV is investing in your company is to get a minimum of 10X return on their investment and ideally a 50X return. If a 50X return happens, and it does only in a small number of deals, the dividend return will only increase return slightly. For example, on the \$8 million investment in FantasyNet, let's assume CRV gets what they want, a 50X return on their investment in five years. CRV will receive \$400 million (50 x \$8 million). Assuming no compounding, monthly or otherwise, a 15% annual dividend on \$8 million is \$1.2 million per year, or \$6.0 million accumulated over five years (if the preferred stock is cumulative) and added to the \$400 million brings it to \$406 million. Not a very significant dividend addition. Just a bit of juice.

However, the dividend gains are significant to CRV when the liquidity event results in much lower value. Say it is only 2X the initial investment, or \$16 million. The five year's worth of dividends of \$6 million then would take it to \$22 million. Even though a 2X return over five years is nothing to brag about, adding \$6 million to a gain of \$16 million helps quite a bit.

My advice: 15% dividend is at the high end of the 5%-15% range when dividends are included in the deal. No dividend is best, but if you feel you need to give them a dividend-paying preferred, keep it at the low end of the range. And scrap the compounding. Also, the last sentence of the paragraph is moot as you won't be paying a dividend to your common stockholders. Negotiate it out if you can.

Liquidation Preference: This is a critical provision. There are two parts to it, corresponding to the two sentences in the paragraph. The first "very long" sentence is the preference part. It states that the Series A Preferred shareholders get "preference" on a liquidity event in that they will receive twice (2X) their original investment plus any unpaid dividends off the top of any proceeds to the company from the liquidity event and before the common shareholders get any proceeds. CRV will require the "preference." The 2X element is negotiable. 1X is more favorable, especially given they want their Preferred shares to be participating, as explained below. For a few years starting in 2001, the X multiple in term sheets rose above the standard 1X to account for the increased risk perceived in VC investments, but investors are now requiring solid businesses in which to invest, so 1X has returned in most

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term sheets. CRV will likely have another view on this. Also, the payment of unpaid dividends depends on whether you can negotiate the Series A Preferred to be non-dividend shares.

The second (last) sentence makes the preferred shares "participating." Participating means that after the investor gets their preferred payback (2X or 1X) of their original investment plus dividends, they "participate" with the common shareholders (you) on the existing "as converted" basis. You have a few options on the participate element of the paragraph. First, and my recommended approach, is to try to negotiate it out completely. It represents an economic advantage to the investor that is not the original intent of their investment, which is to share the risk on a preferred and protected basis. Here's an example of how "participation" works. CRV makes their $8 million investment based on a $16.830 million pre-money valuation. CRV gets 32.22% ownership. If the company is sold for $30 million, CRV receives their $8 million first (the preference) and then 32.22% of the remaining $22 million (the participate), or $7.088 million. Therefore, CRV receives a total of $15.088 million, or 50.3% of the $30 million sale proceeds, not the original 32.22% ownership share.

The impact of participation is decreased at higher liquidity event values. Say the company was sold for $100 million. CRV would get their $8 million first, and then 32.22% of the remaining $92 million, or $29.642 million, for a total of $37.642 million, or 37.64% of the $100 million sale proceeds. Not as dramatic of an increase from the original 32.22% ownership as the sale at a lower price, but still a difference of $5.422 million going to CRV instead of to you. Of course, I didn't even consider the accumulated dividends the investor gets, which makes the "participate" even more investor-friendly. This is "full participation" and a significant economic advantage to the investor.

An alternative is to "cap the participate." This means that the investor can participate after their return of their investment but only up to a certain cap level, say 2X or 3X the original investment. A sample term sheet "cap" provision would read: "After the payment of the Liquidation Preference to the holders of the Series A Preferred, the remaining assets shall be distributed ratably to the holders of the Common Stock and the Series A Preferred on a common equivalent basis, provided that the holders of Series A Preferred will stop participating once they have received a total liquidation amount per share equal to X times the Original Purchase Price, plus any declared but unpaid dividends. Thereafter, the remaining assets shall be distributed ratably to the holders of the Common Stock."

In this "capped" participation, the X times the Original Purchase Price includes the Liquidation Preference amount, not just the participating amount. "X' is normally 2 or 3 when this "capped" participation is included and the actual multiple would be a result of the negotiation.

My recommendation: I doubt if any investor would agree to remove the "liquidation preference" part, but try to keep these "participate" clauses out completely and go with the non-participation.

Redemption: To understand the redemption provision, you must understand that VCs raise money for their current fund (typical size: $150-200 million) from investors (institutions, college endowment funds, wealthy individuals) for a period of 8 to 10 years (sometimes as short as 5 years), at which time the VCs must "wind down" the fund (pay back the investors their original investment plus any gains). There is a high probability that some of the companies in which the VC invested from the fund are in a state of "living dead", that is, strong enough to keep going but not strong enough for a liquidity event. The VC has a problem if the money is stuck in the company with no way to get it out when the fund's term is up. So the VCs invented the redemption provision to manage that risk. This provision gives them the right to require the company to pay back the initial investment plus any accrued but unpaid dividends. Of course, the company needs to have an adequate cash balance to honor the redemption. If not, the VC really has a problem – they have a right to the money, but it's not available because the value created in some fund

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companies is not liquid. If the VC believes there is a good chance that a liquidity event is imminent, they won't invoke the redemption as they will rather roll the dice on the liquidity event.

It will probably be a deal-breaker if you insist on it not being in the term sheet, but there are elements of the provision that you can negotiate to make it more favorable. Keep the redemption date as far in the future as possible. String out the payments so that the company does not have a huge cash requirement at any one time. Redemption at more than 1X the investment amount is taking this provision beyond redemption and into an accelerated return. Negotiate to a redemption of just the investment amount (1X) plus dividends, if the Series A stays as a dividend stock. And do your best to keep out any clause that triggers an adverse-change redemption which allows an option to redeem whenever a majority of the Series A Preferred stockholders vote that the company has experienced a material adverse change associated in any way with its business operations or prospects. They could vote anything a "material adverse-change" in the company. CRV will likely present reasons why this is a critical risk-management provision.

Anti-dilution Provision: Be very careful with this provision. The anti-dilution provision is in a term sheet to protect CRV from excess-dilution caused by a subsequent round of financing taking place at a lower share price than their Series A price. Here's how this works:

CRV is buying their Series A Preferred shares at $8.415 per share. They are getting 950,683 shares for their $8 million investment. Initially their conversion rate is 1:1. Now assume that the Series B Preferred is sold at $7 per share. The the size of investment in the B round is not relevant for a full ratchet anti-dilution, as presented in the term sheet. At $7 per share, the Series B funding would be a down round. With full ratchet protection, the Series A investors have the right to reprice their entire investment at the lower Series B price, no matter how many shares were sold to the Series B investor. At the adjusted Series A price ($7 per share), on conversion to common the Series A investor would have a right to 1.143 million shares of common ($8/$7 = 1.143). They would not immediately receive additional Series A Preferred shares, but their conversion rate would change from 1:1 to 1.143:1. The Series A investors expect dilution of their percentage ownership to occur as additional rounds of financing takes place. They also may expect preferred shares to be sold in subsequent rounds of financing at successively higher prices. However, a lower Series B share price means more shares issued per dollar invested than the Series A round, diluting Series A investor ownership more than had there been an up-round. So they want to be protected from this.

Now let's look at a more serious case, one in which you can get "burned out" of your venture. Assume that FantasyNet hits hard times over the next year, maybe there's a strike in a key sports league or a national crisis in which professional sports stops for a while and revenues dry up for FantasyNet on a short-term basis. You need $500,000 in cash to survive this period and no one except CRV will invest in the Series B round. They will only invest at $4.00 per share, less than half of what they paid for their Series A shares. For their $500,000 investment, they will receive 125,000 Series B shares. First we can look at the situation without an anti-dilution provision. Your dilution is minimal since the funding amount is small and the number of new shares (125,000) represents only 4.1% of the 3,075,683 oustanding shares after the B round (2,950,683+125,000 shares). Your ownership percentage is diluted minimally from 67.78% to 65.0%. CRV now owns both Series A and B shares, with their A share ownership at 32.22% and their B share ownership at 4.1%.

However, with full ratchet anti-dilution protection, CRV has a right to a conversion price adjustment on all of their Series A shares due to the Series B down round. As explained above, they will have the right to value their $8 million Series A investment at $4.00 per share instead of the original $8.415 per share, which would mean that their Series A investment would buy 2 million shares instead of 950,683 shares. On an as-converted basis, CRV would then own 2 million "A" shares and 125,000 "B" shares. Total outstanding shares would be CRV's 2 million "A" shares, their 125,000 "B" shares, and your 2,000,000 common shares, or 4,125,000 shares on an as converted basis. CRV's would now own 51.5% of the company. Your ownership is diluted to 48.5%.

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A more favorable anti-dilution provision for you would be a weighted-average approach which takes into account the relative size of a subsequent round as compared to the Series A round. Here's how it works. The original Series A price is adjusted, not directly to the Series B price as it would under full ratchet, but based on the ratio of the number of outstanding shares had the new Series B financing taken place at the Series A price to the number of outstanding shares given the actual Series B financing without any Series A adjustment. After the CRV Series A funding took place but before the Series B funding, there were 2,950,683 shares outstanding - 2 million common shares owned by you and 950,683 Series A Preferred shares owned by CRV. In the example above, a $500,000 Series B funding takes place at $4.00 with 125,000 "B" shares issued. Under the weighted-average approach, the new conversion price for Series A, made possible by their anti-dilution protection, would be calculated in the following way:

New Conversion Price = Current Conversion Price X

[(Shares outstanding prior to new funding + New shares issued based on current "A" conversion price) / (Shares outstanding prior to new funding + New shares issued based on new funding price)]

= $8.415 x [(2,950,683 + 59,418) / (2,950,683 + 125,000)] = $8.415 x .9787 = $8.2356

This results in a revaluation of the Series A Preferred shares based on the new conversion price. The conversion rate would change to 1.022, found by $8.415 / $8.2356.

Thus, the number of shares of common issued upon conversion of Series A is now:

950,683 shares x 1.022 = 971,598 shares

Your dilution under the weighted-average approach would be to 64.6% (2 million shares/3.096,598 shares) as compared to 48.5% under full ratchet. Less dilution for you happens because the relative size of the Series B funding in addition to the down-round price is taken into account in the weighted-average approach whereas in full ratchet only the down-round price was considered. My recommendation: negotiate to remove the full ratchet provision and replace it with a weighted-average one.

Also, I would suggest adding "carve out" provisions that allow you to sell future shares to certain individuals or groups of individuals without triggering the anti-dilution protection. The carve-out language might be "… other than shares (i) reserved as employee shares described under the Company's option pool,, (ii) shares issued for consideration other than cash pursuant to a merger, consolidation, acquisition, or similar business combination approved by the Board; (iii) shares issued pursuant to any equipment loan or leasing arrangement, real property leasing arrangement or debt financing from a bank or similar financial institution approved by the Board; and (iv) shares with respect to which the holders of a majority of the outstanding Series A Preferred waive their anti-dilution rights) at a purchase price less than the applicable conversion price."

Carve-outs (i-iii) are pretty standard. Carve-out (iv) is being put into many term sheets and protects common investors from the dilution effects of a down round if the majority (but not all) of the holders of Series A Preferred shares decides to fund a Series B round at a lower valuation. Assume a minority of holders of Series A Preferred shares don't participate in funding the "B" round, counting on the anti-dilution protection to maintain their valuation thereby further diluting everyone else. Carve-out (iv) will prevent this by giving those majority investors the right to void the anti-dilution protection for all Series A Preferred share holders, whether they participate or not. Language for carve-out (iv) is "This anti-dilution protection is subject to a play-or-lose provision that provides that adjustments will be made to the Series A Conversion Rate only if the Series A holder participates in such dilutive offering to the extent of its pro rata equity interest in the Preferred. Any investor who does not participate in a future financing forfeits the benefits of dilution protection." You can include either 1) for all future rounds of financing or 2) only for that financing round. Of course, if you only have one owner of Series A Preferred shares,

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they will either fund a future round or not, so the clause would be moot.

Conversion: This simply states that every share of Preferred stock can be converted on a liquidity event to one share of common stock. Also, it establishes the ratio that pertains to Preferred stockholder voting on an "as converted basis', that is, one Preferred share has the same vote as one Common share. This is standard in all term sheets and acceptable. Note that this conversion relationship could change if the anti-dilution provision is in effect on a down-round.

Automatic Conversion: This paragraph may seem benign, but there are three important variables that will influence its impact on you. Clause (i) regarding the voting threshold is moot because CRV is the only investor. However clause (ii) has two landmines regarding a potential IPO - the thresholds of seven times (7X) the original Series A Purchase Price and of $140 million net proceeds to the Company. You want these thresholds to be a low as possible to maintain flexibility in having an IPO while CRV is going to want these as high as possible to maintain control of when and at what price an IPO will take place. Seven times the original Series A price and $140 million proceeds seem high given your Series A post-money valuation of $24.830 million. Also, you want to make sure that all series of investors (A, B, C….) have the same thresholds in the Automatic Conversion to avoid the possibility that one Series group of investors with very high thresholds can prevent an IPO that the other investors think would be in the best interests of all investors. This may mean that you will have to go to some previous investors and renegotiate these thresholds, but it will be worth it.

Voting Rights: Just descriptive of who can vote. This is standard. Acceptable.

Protective Provisions: These provisions often are hotly negotiated as they represent veto rights for the holders of Series A Preferred shares. Ideally, you would not want the investor to have any veto rights. Their position will be that these are just rights that will not necessarily and likely not, be exercised. But I think you should choose your battles here. (i), (iv), (vi) and (ix) seem okay.

The real problem with the other provisions is the restriction on your ability to raise money in subsequent rounds. (ii) is fine only because you have lots of authorized shares that are currently unissued and available to issue in later rounds. If that were not the case, you would have to get the investor's permission to increase the authorized shares, and they could veto it which means you would have no shares to issue for a future round of financing. (iii) means that the investors have the right to insist that any new Preferred shares sold to new investors must have subordinated rights, preferences, and privileges to the Series A investor's shares. That would make it extremely difficult for you to attract new investors after this round as they would have a subordinated position to the Series A investors. (v) gives the investor the right to block a liquidity event for any reason. Their interests are for a liquidity event and the concern on their part is that the company could be sold either prematurely or at a price that would not provide them with their desired return on investment. You can address this by putting a cap on their veto by adding at the end of that provision "in which the Investor's proceeds would be less than [X] times the initial investment." You can negotiate the X number. (vii) inhibits your ability to provide new investors with seats on the Board, and new investors very likely will require that. This can be addressed by adding at the end of that provision "with the exception of increasing the number of directors comprising the Board of Directors by at the minimum one (1) for each subsequent round of financing in excess of Y million dollars." Again, you negotiate the Y number. (viii) also may inhibit your ability to issue dividend-paying Preferred shares to subsequent investors. You really don't want to have dividends associated with any Preferred issues, but you may need funding in the future and a new investor may require dividends to be included with their Preferred shares. So it would be advantageous to you to have that flexibility without the Series A investors able to veto it.

Registration Rights: No need to spend any time on this one. If and when an IPO takes place, the investment banking firm handling the IPO will decide how the deal is going to be structured regardless of what this paragraph states.

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Board of Directors: Board representation can be a contentious issue and potentially create major problems for you in the future in the event that the company underperforms or the VC has an objective of taking control of the company or at least putting a person of their choosing in control. Currently, your board is comprised of you and Ray Katrinak. CRV may want to replace Ray with someone who is not aligned so closely with you. However, they will only own 32.22% of the company, so a minority board representation for CRV is reasonable. They will likely argue that they need some control to protect the way their $8 million is used. I recommend that you do your best to keep Ray as the third person on the Board and let them have the other seat. Also, there is no need to pay them as Directors. I would recommend against the last sentence allowing them to take control of the Board as it would likely have to be renegotiated away when additional funding rounds take place.

Information Rights: No significant issues here, although I would have the Board decide on the accounting firm doing the annual audit in order to maintain control of that cost. Providing monthly financial statements is slightly overkill. Quarterly should suffice. Also, just as a formality I would add as the last sentence: "These provisions shall terminate upon a Qualified IPO."

Right of First Refusal: This gives Preferred stockholders the right of first refusal to purchase enough shares in any proposed subsequent stock offering to maintain their existing percentage ownership. This means that any new investors may have previous investors entering again in the new round. Complicates subsequent funding only slightly.

Co-sale Agreement: This is standard. Not much chance of excluding this. Acceptable.

Bring Along Right: Acceptable.

Stock Vesting: You can negotiate on the percentages. The first 25% is considered the "cliff" and you can negotiate that higher or even vest 25% immediately with an additional 25% as a cliff, then the remaining 50% to vest monthly over the next 24 months. Although your Board member, Ray Katrinak, does not have ownership in the company, assume he invested $500,000 at an early stage. He should not and likely would not be subject to this vesting provision as he actually bought his shares with a $500,000 investment, so he would be considered an investor. But CRV will argue that you are subject to vesting based on the fact that your common shares ownership is based on sweat equity and not hard dollars. Try to negotiate stock vesting out of the agreement. CRV will want it in to keep you motivated to stay with the company.

Closing Fee: Try very hard to negotiate this out of the term sheet. You are likely going to be paying their expenses. CRV may justify these fees as their compensation for providing networking and management consulting services as part of their ownership, but you will have to present an alternative position that as owners they have an interest in providing those benefits to contribute to the increase in the value of their equity stake in FantasyNet. If you can't exclude a closing fee, at least structure a payment schedule extending over several years.

Expenses: Watch out for this one. As written in the term sheet, you are writing a blank check. Negotiate some cap on company-paid closing expenses. Should be about $30,000-$50,000. Okay for the company to pay expenses at closing of deal, but only upon closing. Non-refundable retainer of any amount is over-the-top and would mean that you are paying their expenses even if they back out.

Exclusivity: Ninety days is too long. This deal should get done in much less time or one of the parties is not committed. Make it 45 days or 30 days renewable on mutual and written agreement by both Company and Investor.

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The longer the time you are tied to exclusivity, the more difficult it may be for you to raise financing elsewhere if this deal is not made.

Publicity: They want to control the manner in which this transaction is presented to the public. Acceptable.

Non-Binding: Note that the "Expenses", "Exclusivity", and "Publicity" sections of the term sheet are not binding, so you will be legally bound to honor those paragraphs as negotiated. Also, if the due diligence performed subsequent to the signing of this term sheet results in the decision to go forward with the CRV investment, the following are the legal and binding documents to which this paragraph refers: Stock Purchase Agreement, Certificate of Incorporation, Investor Rights Agreement, Voting Agreement, Right of First Refusal and Co-Sale Agreement, Management Rights Letter, and Indemnification Agreement. For samples of these documents, see http://www.nvca.org/index.php?option=com_content&view=article&id=108&Itemid=136.

Good luck with your negotiations!

EXHIBIT C. COMPARABLE FINANCIAL METRICS

	Current - 2009			
Key Financial Metrics	FantasyNet	Jobai	Tarmac	Triptic
Current Ratio	16.76	17.25	28.29	26.19
Quick Ratio	15.68	16.23	27.36	25.77
Cash Ratio	11.83	13.92	25.27	22.95
Total Asset Turnover	0.90	0.71	0.41	0.53
Average Collection Period	0.25	0.18	0.18	0.20
Gross Profit Margin	95.0%	88.0%	88.0%	97.0%
Operating Profit Margin	51.9%	37.7%	38.8%	52.9%
Net Profit Margin	33.6%	24.3%	25.0%	34.2%
Debt/Equity Ratio	0.00	0.00	0.00	0.00
Leverage Ratio	1.06	1.06	1.04	1.04
Tax Burden Ratio	0.65	0.65	0.65	0.65
Interest Burden Ratio	1.00	0.99	0.99	0.99
Interest Coverage Ratio	218.22	172.66	110.93	157.40
Return on Equity (ROE)	62.2%	48.8%	27.3%	35.5%
Return on Assets (ROA)	47.0%	26.8%	15.9%	28.0%
Earnings Multiple Used in Valuation	TBD	7	5	6
Growth Rates (Geometric Means)				
Revenue – 2005-09	47.9%	67.9%	70.2%	60.6%
Revenue – 2009-14	45.0%	42.9%	35.0%	30.0%
Net Income – 2005-09	41.0%	57.1%	58.8%	57.8%
Net Income – 2009-14	40.8%	48.7%	36.6%	30.5%
Free Cash Flow – 2005-09	27.9%	42.9%	42.6%	41.8%
Free Cash Flow – 2009-14	42.4%	48.1%	33.4%	30.1%

Metrics Definitions: Current Ratio = Current Assets/Current Liabilities; Quick Ratio = (Cash and Marketable Securities + Receivables)/Current Liabilities; Cash Ratio = Cash and Marketable Securities/Current Liabilities; Total Asset Turnover = Net Sales/Total Assets; Average Collection Period = Net Sales/Accounts Receivable; Gross Profit Margin = (Net Sales – Cost of Goods Sold)/Net Sales; Operating Profit Margin = EBIT/Net Sales; Net Profit Margin = Net Profit/Net Sales; Debt/Equity Ratio = Long-term Debt/Stockholders' Equity; Leverage Ratio = 1+ (Debt/Equity); Tax Burden Ratio = Net Profit/Pretax Profit; Interest Burden Ratio = (EBIT-Interest Expense)/EBIT; Interest Coverage Ratio = EBIT/Interest Expense; Return on Equity (ROE) = Tax Burden Ratio x Interest Burden Ratio x Operating Margin x Total Asset Turnover x Leverage Ratio; Return on Assets (ROA) = Operating Profit x Total Asset Turnover

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EXHIBIT D. FANTASYNET KEY FINANCIAL METRICS

(all dollar values in $000)

Key Income Statement Values	2005(a)	2006(a)	2007(a)	2008(a)	2009(a)	2010(p)	2011(p)	2012(p)	2013(p)	2014(p)
Net Sales (NS)	1,354	2,261	3,256	4,624	6,474	9,387	13,611	19,735	28,616	41,493
NS Annual Growth - Geometric		67.0%	55.1%	50.6%	47.9%	45.0%	45.0%	45.0%	45.0%	45.0%
NS Annual Growth – Average		67.0%	44.0%	42.0%	40.0%	45.0%	45.0%	45.0%	45.0%	45.0%
Gross Profit	1,313	2,216	3,159	4,439	6,150	8,917	12,930	18,749	27,185	39,419
Gross Profit Margin	97.0%	98.0%	97.0%	96.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%
EBITDA	853	1,459	1,876	2,483	3,366	4,224	6,125	8,881	12,877	18,672
Net Income (NI)	550	942	1,212	1,605	2,175	2,727	3,954	5,734	8,316	12,059
NI Annual Growth-Geometric Mean		71.3%	48.5%	42.9%	41.0%	25.3%	34.8%	38.1%	39.8%	40.8%
NI Annual Growth-Average		71.3%	28.7%	32.4%	35.6%	25.3%	45.0%	45.0%	45.0%	45.0%
Net Profit Margin	40.6%	41.6%	37.2%	34.7%	33.6%	29.0%	29.1%	29.1%	29.1%	29.1%
Key Balance Sheet Values										
Cash and marketable securities	411	1,170	2,049	3,390	4,980	15,392	18,436	22,856	29,274	38,591
Property, plant, and equipment	68	74	86	94	104	135	175	228	296	385
Long-Term Debt	0	0	0	0	0	0	0	0	0	0
Key Free Cash Flow Values										
Cash provided by operations		753	889	1,332	1,567	2,390	3,015	4,371	6,338	9,190
Gross investments in tangible fixed		(10)	(15)	(12)	(14)	(36)	(47)	(62)	(80)	(104)
Free Cash Flow (FCF)		743	874	1,319	1,553	2,354	2,968	4,310	6,258	9,086
FCF Annual Growth - Geometric			17.7%	33.3%	27.9%	51.5%	38.2%	40.5%	41.7%	42.4%
FCF Annual Growth - Average			17.7%	50.9%	17.7%	51.5%	26.1%	45.2%	45.2%	45.2%

EXHIBIT E. JOBAI KEY FINANCIAL METRICS

(all dollar values in $000)

Key Income Statement Values	2005(a)	2006(a)	2007(a)	2008(a)	2009(a)	2010(p)	2011(p)	2012(p)	2013(p)	2014(p)
Net Sales (NS)	$1,540	$2,879	$4,808	$7,886	$12,223	$18,334	$26,585	$37,219	$52,106	$72,949
NS Annual Growth - Geometric		87.0%	76.7%	72.4%	67.9%	50.0%	47.5%	44.9%	43.7%	42.9%
NS Annual Growth - Average		87.0%	67.0%	64.0%	55.0%	50.0%	45.0%	40.0%	40.0%	40.0%
Gross Profit	$1,324	$2,534	$4,376	$7,176	$10,756	$16,684	$24,192	$33,869	$47,417	$66,383
Gross Profit Margin	86.0%	88.0%	91.0%	91.0%	88.0%	91.0%	91.0%	91.0%	91.0%	91.0%
EBIT	$821	$1,333	$2,680	$4,303	$4,630	$8,434	$12,229	$17,121	$23,969	$33,556
Net Income (NI)	$489	$818	$1,686	$2,791	$2,975	$5,419	$7,862	$11,012	$15,424	$21,600
NI Annual Growth-Geometric		67.4%	85.7%	78.7%	57.1%	82.2%	62.6%	54.7%	50.9%	48.7%
NI Annual Growth-Average		67.4%	106.0%	65.5%	6.6%	82.2%	45.1%	40.1%	40.1%	40.0%
Net Profit Margin	31.7%	28.4%	35.1%	35.4%	24.3%	29.6%	29.6%	29.6%	29.6%	29.6%
Key Balance Sheet Values										
Cash and marketable securities	$946	$1,645	$2,646	$10,860	$13,296	$17,459	$23,665	$32,557	$45,053	$62,605
Property, plant, and equipment	$108	$162	$272	$543	$674	$849	$1,018	$1,222	$1,467	$1,760
Long-Term Debt	$500	$500	$500	($6)	($6)	($6)	($6)	($6)	($6)	($6)
Key Free Cash Flow Values										
Cash provided by operations		$633	$1,065	$2,030	$2,547	$4,109	$6,210	$8,879	$12,427	$17,394
Gross investments in tangible fixed		($60)	($121)	($293)	($157)	($209)	($210)	($253)	($303)	($364)
Free Cash Flow (FCF)		$573	$944	$1,737	$2,390	$3,900	$6,000	$8,627	$12,124	$17,030
FCF Annual Growth - Geometric			64.8%	74.1%	61.0%	63.2%	58.4%	53.4%	50.1%	48.1%
FCF Annual Growth – Average										

Jobai is the leading innovator in online recruitment and job placement. Jobai takes online job markets to an advanced social networking level by integrating the recruitment activities of companies and job search activities of individuals with other online social networking platforms such as Facebook, MySpace, and Twitter. Jobai also provides an iphone app to provide instant mobile phone notification of job opportunities. Received funding of $7 million in 2008 at a pre-money valuation EBITDA multiple of 7.

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EXHIBIT F. TARMAC KEY FINANCIAL METRICS (ALL DOLLAR VALUES IN $000)

Key Income Statement Values	2005(a	2006(a	2007(a	2008(a	2009(a	2010(	2011(	2012(	2013(	2014(
Net Sales (NS)	$606	$1,285	$2,416	$3,770	$5,089	$6,870	$9,275	$12,52	$16,90	$22,82
NS Annual Growth - Geometric	0.0%	112.0	99.6%	83.9%	70.2%	35.0%	35.0%	35.0%	35.0%	35.0%
NS Annual Growth - Average	0.0%	112.0	88.0%	56.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Gross Profit	$521	$1,131	$2,199	$3,430	$4,478	$6,252	$8,440	$11,39	$15,38	$20,76
Gross Profit Margin	86.0%	88.0%	91.0%	91.0%	88.0%	91.0%	91.0%	91.0%	91.0%	91.0%
EBIT	$321	$593	$1,345	$1,565	$1,976	$2,814	$3,799	$5,130	$6,926	$9,351
Net Income (NI)	$200	$387	$868	$1,012	$1,273	$1,820	$2,457	$3,317	$4,479	$6,047
NI Annual Growth-Geometric Mean	0.0%	93.4%	108.4	71.6%	58.8%	43.0%	38.9%	37.6%	37.0%	36.6%
NI Annual Growth-Average	0.0%	93.4%	124.4	16.5%	25.8%	43.0%	35.0%	35.0%	35.0%	35.0%
Net Profit Margin	33.0%	30.1%	35.9%	26.8%	25.0%	26.5%	26.5%	26.5%	26.5%	26.5%
Key Balance Sheet Values										
Cash and marketable securities	$371	$612	$9,156	$9,860	$11,07	$12,50	$14,51	$17,22	$20,88	$25,82
Property, plant, and equipment	$42	$48	$54	$60	$68	$76	$85	$96	$107	$120
Long-Term Debt	$100	$0	$0	$0	$0	$0	$0	$0	$0	$0
Key Free Cash Flow Values										
Cash provided by operations		$285	$522	$713	$1,158	$1,466	$1,981	$2,674	$3,610	$4,873
Gross investments in tangible fixed		($7)	($8)	($9)	($11)	($11)	($13)	($14)	($16)	($18)
Free Cash Flow (FCF)		$278	$514	$704	$1,148	$1,455	$1,969	$2,660	$3,594	$4,856
FCF Annual Growth – Geometric			85.2%	59.3%	60.5%	26.8%	31.0%	32.3%	33.0%	33.4%
FCF Annual Growth – Average										

Tarmac provides a mobile-based platform to share and discover restaurants, coffeehouses, nightlife hotspots, retail malls, historic landmarks, notable architecture, theme and community parks, museums and more at any location the user visits. Users can share their experiences through Tarmac with their Facebook and Twitter friends. The platform saves each user's experiences to provide a time-based itinerary of past events to share with friends or others visiting the same locations. Received funding of $8 million in 2007 at a pre-money valuation EBITDA multiple of 5.

EXHIBIT G. TRIPTIC KEY FINANCIAL METRICS (ALL DOLLAR VALUES IN $000)

Key Income Statement Values	2005(a)	2006(a)	2007(a)	2008(a)	2009(a)	2010(p)	2011(p)	2012(p)	2013(p)	2014(p)
Net Sales (NS)	$859	$1,512	$2,632	$4,079	$5,711	$7,424	$9,651	$12,54	$16,31	$21,20
NS Annual Growth - Geometric		76.0%	75.0%	68.1%	60.6%	30.0%	30.0%	30.0%	30.0%	30.0%
NS Annual Growth - Average		76.0%	74.0%	55.0%	40.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Gross Profit	$816	$1,452	$2,526	$3,957	$5,539	$7,127	$9,265	$12,04	$15,65	$20,35
Gross Profit Margin	95.0%	96.0%	96.0%	97.0%	97.0%	96.0%	96.0%	96.0%	96.0%	96.0%
EBIT	$486	$873	$1,469	$2,238	$3,020	$4,001	$5,203	$6,765	$8,796	$11,43
Net Income (NI)	$314	$565	$949	$1,449	$1,951	$2,587	$3,364	$4,374	$5,688	$7,395
NI Annual Growth-Geometric Mean		79.7%	73.7%	66.4%	57.8%	32.6%	31.3%	30.9%	30.7%	30.5%
NI Annual Growth-Average		79.7%	67.9%	52.7%	34.6%	32.6%	30.0%	30.0%	30.0%	30.0%
Net Profit Margin	36.6%	37.4%	36.0%	35.5%	34.2%	34.9%	34.9%	34.9%	34.9%	34.9%
Key Balance Sheet Values										
Cash and marketable securities	$74	$670	$1,487	$7,478	$9,306	$11,69	$14,70	$18,62	$23,73	$30,37
Property, plant, and equipment	$103	$114	$128	$141	$164	$188	$216	$249	$286	$329
Long-Term Debt	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Key Free Cash Flow Values										
Cash provided by operations		$450	$794	$1,010	$1,785	$2,411	$3,004	$3,905	$5,076	$6,598
Gross investments in tangible fixed		($16)	($19)	($18)	($29)	($32)	($37)	($42)	($49)	($56)
Free Cash Flow (FCF)		$434	$776	$991	$1,756	$2,378	$2,967	$3,862	$5,027	$6,542
FCF Annual Growth - Geometric			78.7%	51.1%	59.3%	35.5%	30.0%	30.1%	30.1%	30.1%
FCF Annual Growth – Average										

Triptic is a leading online and mobile-based social networking site for travelers. The site allows members to create itineraries, post short messages as their trip progresses to different destinations. Itineraries can be make public or shared privately with friends. Triptic allows uploading of pictures directly from cell phones for friends to see. Local advertisers can directly target travelers in the immediate locality. Received funding of $5 million in 2008 at a pre-money valuation EBITDA multiple of 6.

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QUESTIONS

1. What are the overall objectives of the FantasyNet founder, Tim Bayliss, in the term sheet negotiation?
2. What are the overall objectives of CRV and, in particular, Ann Davenport, in the term sheet negotiation?
3. Which party seems to have the most leverage in the negotiation?
4. Does CRV want to eventually gain control (majority ownership position) of FantasyNet?
5. How is a venture capital firm organized?
6. Why do entrepreneurs access the VC industry for investment funds?
7. Why do VC's want to invest in private companies?
8. What type of securities do VC's receive in exchange for their investment?
9. Why are the Preferred Shares received by CRV referred to as "Series A" shares?
10. What purpose do term sheets serve?
11. What is the difference between pre-money valuation and post-money valuation?
12. How is the CRV ownership percentage, number of shares issued, and price per share determined?
13. What is a "cap table"?
14. What does "common equivalent" mean?
15. If the Preferred Shares that CRV is receiving pays an annual 10% cumulative dividend, under what conditions would CRV actually receive the annual dividends?
16. What would constitute a liquidity event?
17. What is a "liquidity preference"?
18. Under what conditions would the conversion of preferred shares to common shares take place?
19. What is a redemption? How does it benefit CRV?
20. What is an "anti-dilution" provision? What forms can it take? What are the implications of each form on Tim and on CRV?
21. How are the voting rights of CRV determined?
22. What is the purpose of protective provisions and what forms can they take?
23. What is the purpose of the Registration Rights provision?
24. Does a VC require representation on the company board? If so, why and what is the extent of the representation?
25. What protections do the "Right of First Refusal" and "Co-sale Agreement" provision give to CRV?
26. What is vesting? Why would a founder of a company have to relinquish actual ownership of his/her original common shares and then have to stay with the company for certain time to get them back just because the company took in VC funding? What is the vesting provision that CRV is proposing in the term sheet?
27. What is the purpose of a closing fee?
28. What is the rationale for FantasyNet i) paying not only their expenses but also CRV's expenses involved in the transaction and ii) giving CRV a non-refundable $35,000 to begin drafting legal documentation and commence due diligence?
29. What purpose does the exclusivity provision serve? Is it weighted more to the favor of FantasyNet or CRV? Why?
30. Is the term sheet a binding document?
31. If the term sheet is not legally-binding, what other documents provide the legal standing for the CRV investment in FantasyNet and what triggers their creation?

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