

Capitalization Tables

Dr. Ashley J. Stevens
President



Acknowledgements

- ❑ Lita Nelsen, MIT
- ❑ Steve Sammut, Penn
- ❑ Teri Wiley, Mt. Sinai Hospital

“Equity is just cash that hasn’t turned green yet”

Joyce Brinton
Harvard University
1998

INCORPORATED UNDER THE LAWS OF
THE STATE OF DELAWARE



NUMBER
3

SHARES
33,333

GENMAP, INC.

3,900,000 SHARES COMMON STOCK - PAR VALUE \$.01

FULLY PAID

NON-ASSESSABLE

This Certifies that Ashley J. Stevens *is the*
registered holder of Thirty-Three Thousand Three Hundred Thirty-Three *Shares*
GENMAP, INC.

transferable only on the books of the Corporation by the holder hereof in person or by Attorney upon surrender of this certificate properly endorsed.

In Witness Whereof, *the said Corporation has caused this Certificate to be signed*
by its duly authorized officers and its Corporate Seal to be hereunto affixed
this 15th *day* *of* March *A.D. 19* 89

J. Menden
President



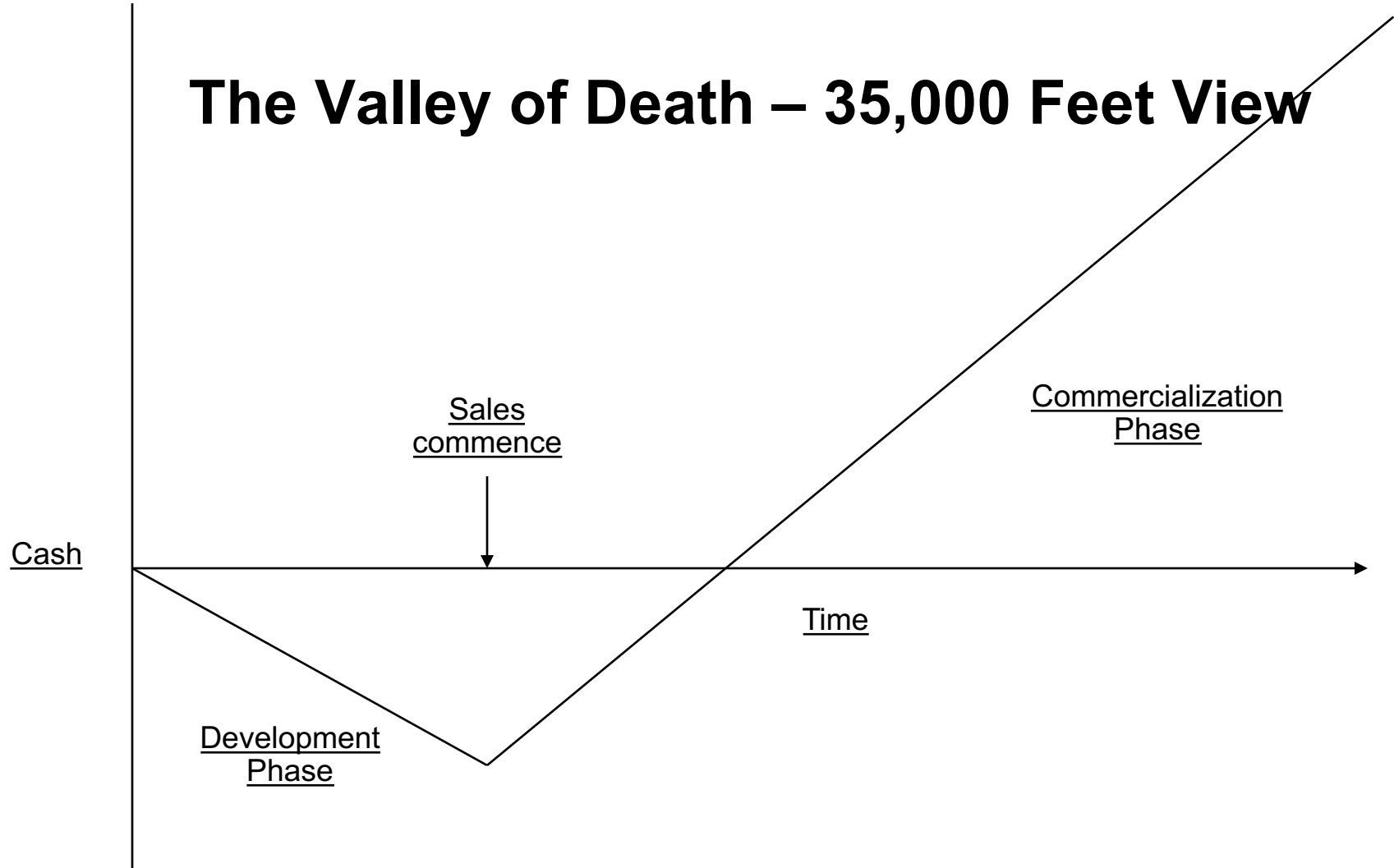
Ashley J. Stevens
Secretary

Agenda

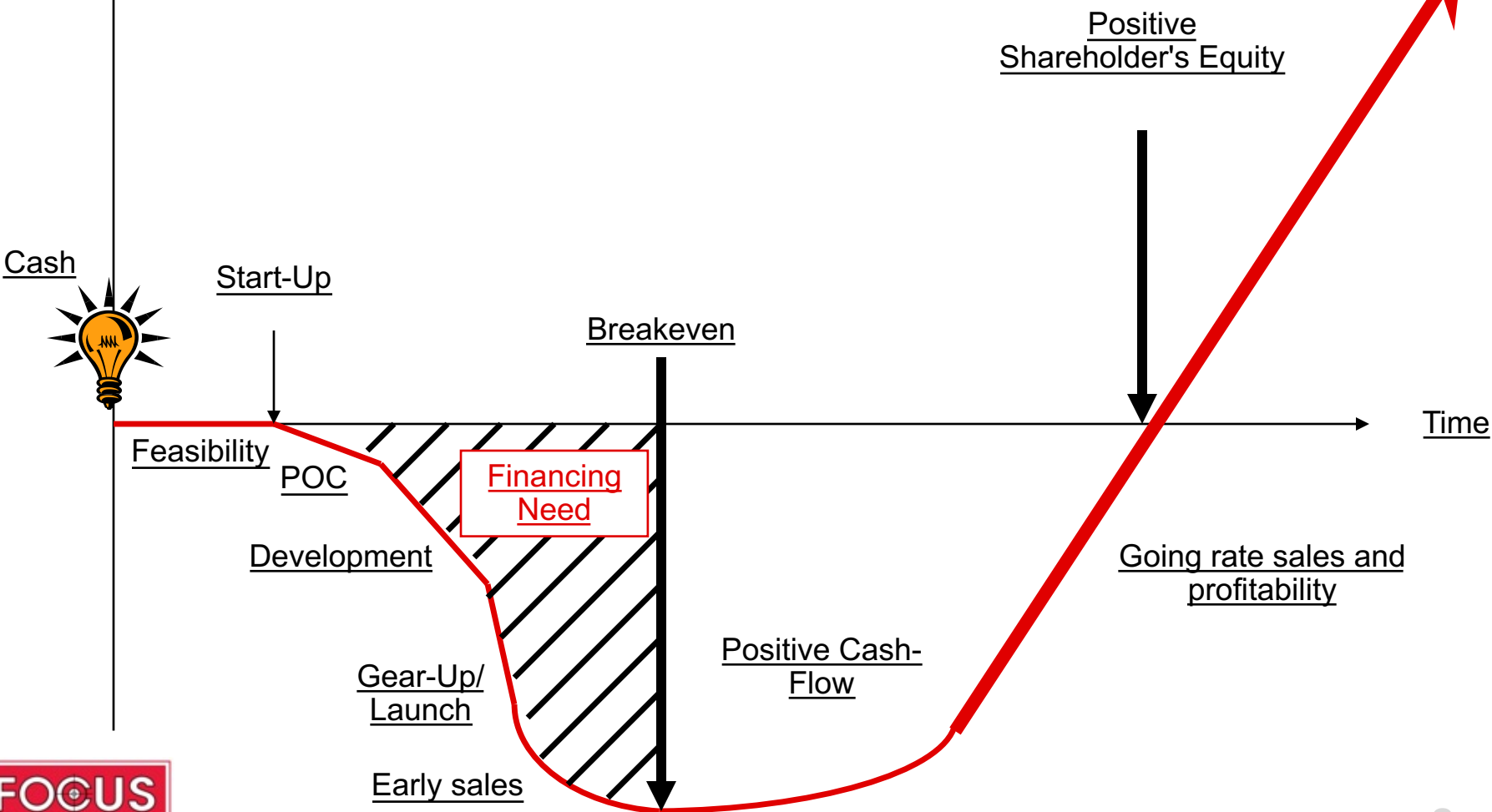
- ❑ The Financing Cycle of a Start-Up Company
- ❑ What is Equity?
- ❑ TLA
- ❑ Ideal cycle of funding
- ❑ The Dark Side
- ❑ Exit mechanisms
 - ❑ IPO
 - ❑ Acquisition

The Financial Life Cycle of a Company

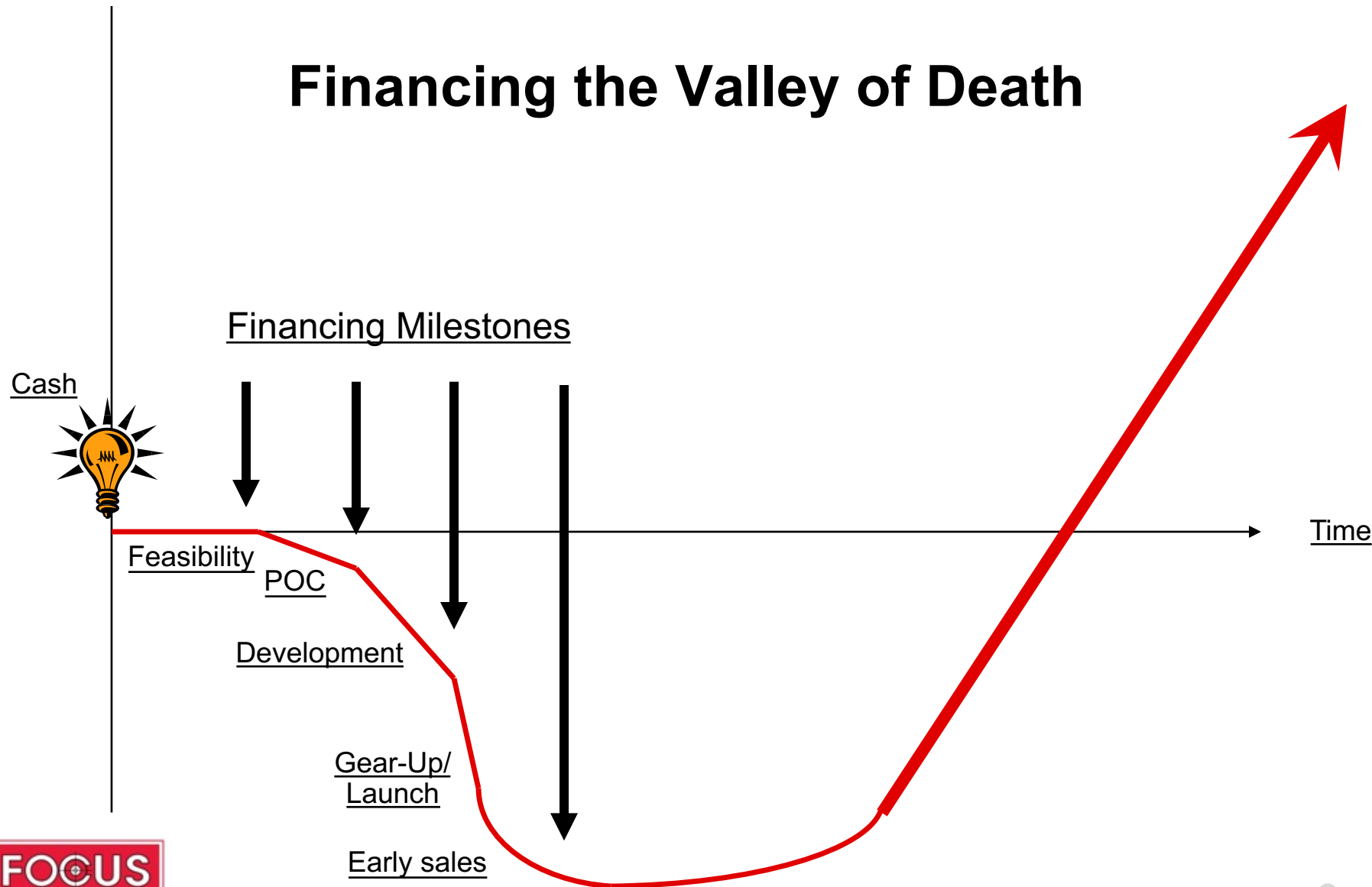
The Valley of Death – 35,000 Feet View



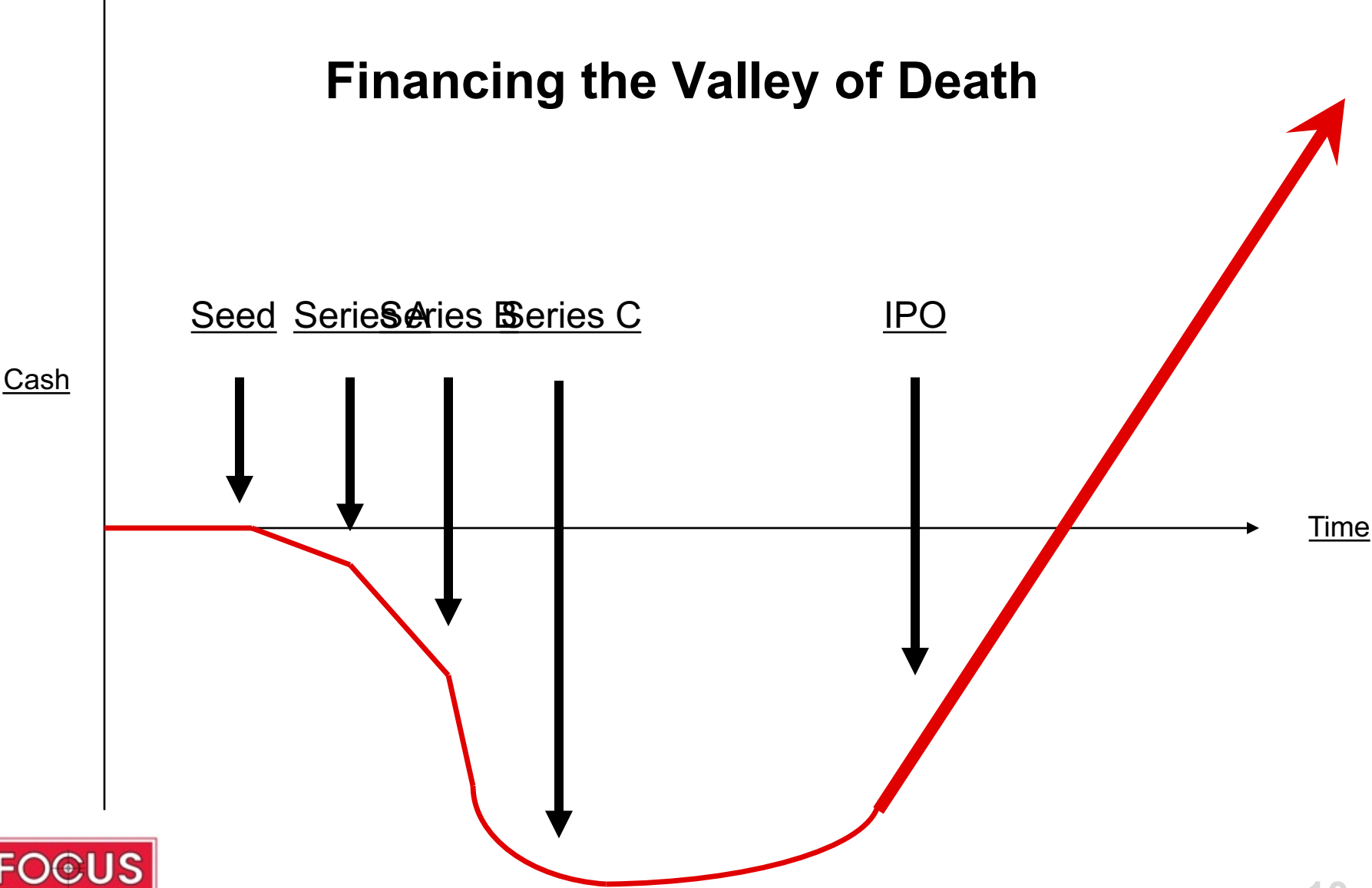
The Valley of Death – 10,000 Feet View



Financing the Valley of Death



Financing the Valley of Death



Sources of Financing for a Start-Up Company

Initial Funding for New Companies – US

- ❑ No External Funding
 - ❑ Bootstrap
 - ❑ Work for equity
- ❑ Grants
 - ❑ Federal Funding
 - ❑ State Funding
 - ❑ University Funding
 - ❑ Foundation Funding
 - ❑ Corporate Grants
- ❑ Individual Investors
 - ❑ Friends and Family
 - ❑ Individual Angel(s)
 - ❑ Angel Networks
 - ❑ Crowd Funding
- ❑ Institutional Investors
 - ❑ Accelerator
 - ❑ Venture Capital
 - ❑ Corporate Partner/Customer

University Financing

- ❑ Most university assistance to spin-outs is in-kind
 - ❑ Business plan development
 - ❑ Management team recruitment
 - ❑ Incubation
 - ❑ Pre-seed grant funding
- ❑ Some universities have their own funds
 - ❑ Saved from a “big hit”
 - ❑ From operating budget
 - ❑ Part of endowment
 - ❑ Alumni
 - ❑ Philanthropic
- ❑ Primary need for institutional funding is for Seed Round
 - ❑ Professional investors for Series A pretty well distributed these days

Capitalization Tables



Dividing the Pie Between the Founders

- ❑ Easy route is equal shares
 - ❑ Simplistic – different people bring different things and make different commitments
- ❑ Recent proposal:

Founders’ Equity Distribution Model

	<u>Weight</u>	<u>Founder 1</u>	<u>Founder 2</u>	<u>Founder 3</u>	<u>Founder 4</u>
Idea	7				
Business Plan	2				
Commitment and Risk	5				
Domain Expertise	7				
Responsibilities	6				



Absolute Scores

	<u>Weight</u>	<u>Founder 1</u>	<u>Founder 2</u>	<u>Founder 3</u>	<u>Founder 4</u>
Idea	7	10	3	3	0
Business Plan	2	3	8	1	0
Commitment and Risk	5	6	4	6	4
Domain Expertise	7	0	7	0	0
Responsibilities	6	0	6	0	0

Weighted Scores

	<u>Founder 1</u>	<u>Founder 2</u>	<u>Founder 3</u>	<u>Founder 4</u>	
Idea	70	21	21	0	
Business Plan	6	16	2	0	
Commitment and Risk	30	20	30	20	
Domain Expertise	0	49	0	0	
<u>Responsibilities</u>	<u>0</u>	<u>36</u>	<u>0</u>	<u>0</u>	
Total Points	106	142	53	20	321
% of Total	33.0%	44.2%	16.5%	6.2%	



How Much for the University

- ❑ Anti-dilution model
 - ❑ “Give me 5% and keep me at 5% till \$5 million in equity financing has been raised”
 - ❑ Often combined with pre-emptive rights
 - ❑ Right to invest to maintain that 5%
 - ❑ Needs an investment fund to be able to exercise
 - ❑ Osage Partners
- ❑ Co-Founder Model
 - ❑ University treated just like other founders
 - ❑ E.g., 4 founders plus university – 20% each
 - ❑ Diluted equally in subsequent financings

University Equity Models

- ❑ U.K. Model
 - ❑ University 50%
 - ❑ All other founders 50%
- ❑ All equity
 - ❑ No royalties, milestones, etc.
- ❑ Has resulted in some interesting initiatives
 - ❑ Imperial Innovations plc
 - ❑ Publicly traded on AIM
 - ❑ IP Group (formerly IP2IPO)
 - ❑ Funded new Oxford Chemistry building
 - ❑ Deals with a number of U.K. universities
 - ❑ Southampton, Leeds, York, Kings, Bristol, Surrey, Bath, Glasgow

Definitions



Common Stock

- ❑ Stock represents a partial ownership in a company
 - ❑ “Shares” of:
 - ❑ Assets
 - ❑ Income
- ❑ Not debt
 - ❑ No obligation to repay
- ❑ Common stock generally paid for by effort
 - ❑ The original “sweat equity”
 - ❑ Founders, management, technology, consultants
 - ❑ Freely available pre-financing
 - ❑ Financial sources will control creation after financing
- ❑ Generally, the stock that gets sold in a public offering or M&A
 - ❑ All other classes of stock get converted to common the night before

Definition

Founders' Stock

- ❑ The first stock sold in a company by the people who found the company
- ❑ Common stock
- ❑ Sold at par value – typically \$0.01 or \$0.001/share
 - ❑ Company has no assets at this time
 - ❑ Fair Market Value
 - ❑ Provides the initial “running around money”
 - ❑ e.g., 2 million shares @ 1¢/share = \$20,000
 - ❑ Enough to pay incorporation costs
 - ❑ Maximizes tax benefits for Founders
 - ❑ No immediate tax liability
 - ❑ All gain is taxed at Capital Gains rates

INCORPORATED UNDER THE LAWS OF
THE STATE OF DELAWARE



NUMBER
3

SHARES
33,333

GENMAP, INC.

3,900,000 SHARES COMMON STOCK - PAR VALUE \$.01

FULLY PAID

NON-ASSESSABLE

This Certifies that Ashley J. Stevens is the
registered holder of Thirty-Three Thousand Three Hundred Thirty-Three Shares

GENMAP, INC.

transferable only on the books of the Corporation by the holder hereof in
person or by Attorney upon surrender of this certificate properly endorsed.

In Witness Whereof, the said Corporation has caused this Certificate to be signed
by its duly authorized officers and its Corporate Seal to be hereunto affixed
this 15th day of March A.D. 19 89

J. Menden
President



Ashley J. Stevens
Secretary

Founders Round

Price per Share

\$0.01

	<u>Shares</u>	<u>Raised</u>	<u>%</u>	<u>Value</u>
Professor	500,000	\$5,000	20%	\$5,000
Postdoc A	250,000	\$2,500	10%	\$2,500
Postdoc B	250,000	\$2,500	10%	\$2,500
University	500,000	\$5,000	20%	\$5,000
CEO	1,000,000	\$10,000	40%	\$10,000
Total	2,500,000	\$25,000	100%	\$25,000

Issued and outstanding	2,500,000
Fully diluted	2,500,000
Raised in this round	\$25,000
Cumulative raised	\$25,000

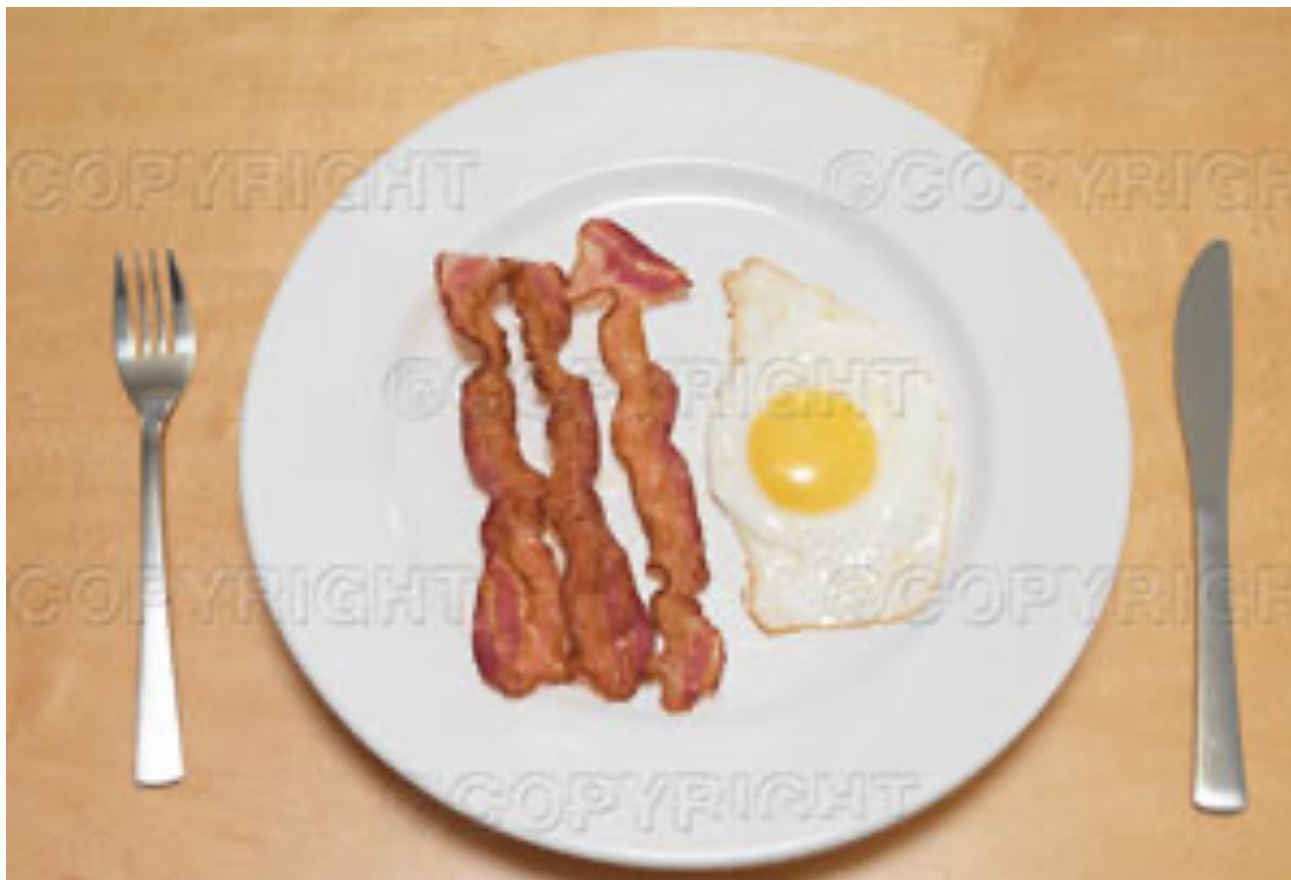
The #1 Mistake of Start-Ups

- ❑ Giving out too much Founders' equity to people who don't join the company
 - ❑ Extraordinarily demotivating to people who do
 - ❑ VC's may insist it get undone
 - ❑ See *startup.com*

You Need Committed People

- ❑ What's the difference between involvement and commitment?

Think back to the last time you had egg and bacon for breakfast



It Took Two Animals to Produce that Meal

A Chicken

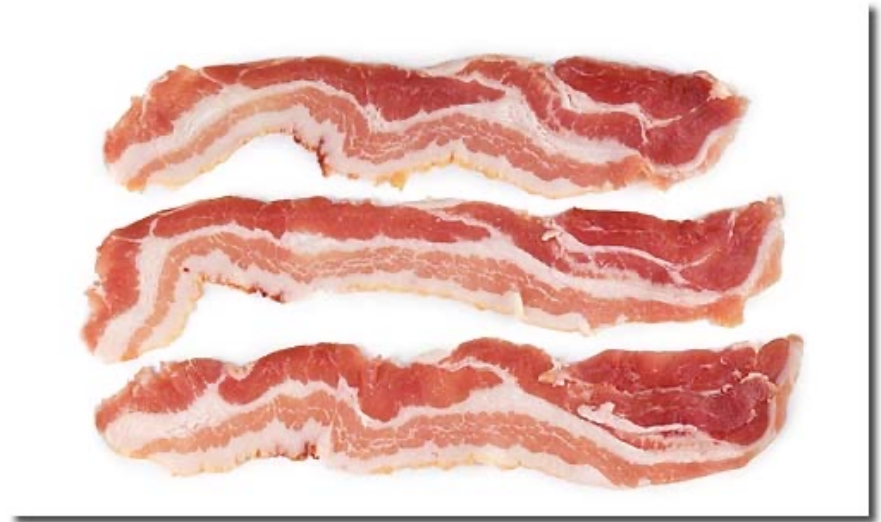


&



a Pig

Now, the Chicken



The Solution

- ❑ Have an earn-in
 - ❑ Make sure people commit
 - ❑ And stay committed!
 - ❑ 4 years is typical
 - ❑ 1 year cliff

Seed Round

- ❑ First “serious” money going in
 - ❑ \$150,000 - \$1,000,000
- ❑ Fund to proof of principle stage
 - ❑ If at proof of principle stage, may be able to go straight to VC rounds
- ❑ Sources
 - ❑ Friends and family (aka, Friends, family and fools)
 - ❑ Angels
 - ❑ Bands of Angels
 - ❑ Seed funds
 - ❑ Economic development funds
- ❑ VC’s won’t invest this little
 - ❑ High transaction and due diligence costs

Definitions

Issued and outstanding

Shares which have been paid for and for which a share certificate has been issued

- ❑ As opposed to shares which have been promised to someone through an option or warrant

Authorized Capital

Number of shares the Board of Directors has authorized the company to sell

- ❑ Gets increased from time to time

Definition

Pre-Money -- the Heart of Start-Up Valuation

- ❑ The price of the company's stock agreed by the buyer (new investor) and seller (the company)

A NEGOTIATED FIGURE

- ❑ Not an accounting-derived figure
- ❑ Determines how much of the company the next round of investment will buy and hence the dilution to existing shareholders

Example

- ❑ Suppose \$2 million is to be raised at \$1/share
 - ❑ If Pre-Money value of company is \$1 million
 - ❑ 1,000,000 shares already exist
 - ❑ 2,000,000 shares will need to be sold
 - ❑ 2x what already exists
 - ❑ New shareholders will now own two thirds of the company
 - ❑ Dilution is by two thirds
 - ❑ If Pre-Money value of company is \$5 million
 - ❑ 5,000,000 shares already exist
 - ❑ 2,000,000 shares will need to be sold
 - ❑ Only 40% more than currently exist
 - ❑ New shareholders will own 28.6% of the company
 - ❑ Dilution is by 28.6%

Some Fundamental Relationships

Number of Shares Sold = Amount Raised / Price Per Share

Post-Money Value = Pre-Money Value + Amount Raised

% Dilution = Amount raised / Post-Money Value

Seed Round

- ❑ Founders want to raise \$200,000
 - ❑ Decide to price at 80¢/share
- ❑ How much of the company should they give up?
 - ❑ 10% ownership “feels” about right
 - ❑ Values the company at ~\$2,000,000 pre-money
- ❑ Professor’s stake now worth \$400,000

Seed Round

Price per Share

\$0.80

	<u>Shares</u>	<u>Raised</u>	<u>%</u>	<u>Value</u>
Professor	500,000		18.2%	\$400,000
Postdoc A	250,000		9.1%	\$200,000
Postdoc B	250,000		9.1%	\$200,000
University	500,000		18.2%	\$400,000
CEO	1,000,000		36.4%	\$800,000
Seed investors	250,000	\$200,000	9.1%	\$200,000
Total	2,750,000	\$200,000	100.0%	\$2,200,000
Issued & outstanding	2,750,000			
Fully diluted	2,750,000			
Raised in this round	\$200,000			
Cumulative raised	\$225,000			
Pre-Money	\$2,000,000			
Post-Money	\$2,200,000			

Definitions

Convertible Debt (Note)

- ❑ A debt obligation of a company that is convertible into stock
 - ❑ i.e., A loan that won't be repaid
- ❑ Used when the parties don't want to set the price of the stock at the time the investment is made
- ❑ Simple document
 - ❑ Legal costs low

Dilution

- ❑ A decrease in a shareholder's percentage ownership without a reduction in the number of shares they hold because additional shares are issued
 - ❑ Size of the pie increases
- ❑ Results from:
 - ❑ Hiring new employees
 - ❑ Raising money
- ❑ Founders DON'T sell their own shares when selling equity
 - ❑ Company issues new stock
- ❑ Professor A owned 20% before seed round; now (s)he owns 18.2%
 - ❑ But the value of her / his stake has gone from \$1,000 to \$400,000
 - ❑ This is good!

Definitions

Good Dilution

- ❑ Dilution is good if the new shares are sold at a price greater than previous sale
 - ❑ Percentage of ownership is less, but the total value of shares owned is greater
 - ❑ Smaller slice of a bigger pie
 - ❑ Value of ownership stake increases

Bad Dilution

- ❑ Dilution is bad if the new shares are sold at a price less than the previous sale
 - ❑ Percentage of ownership is less, and the total value of shares owned is less
 - ❑ Smaller slice of a smaller pie
 - ❑ Value of ownership stake decreases
 - ❑ A “cram down”

Definitions

Option

- ❑ Right to buy stock at a fixed price for some time in the future
 - ❑ Generally personal to the holder (or their estate)
- ❑ Two Types under US tax laws:
 - Incentive Stock Option (ISO)
 - Non-Qualified Stock Options (NQSO)
- ❑ Benefit:
 - ❑ You don't have to put out the money to buy the stock till you know it's going to be worth something
 - ❑ Or pay any taxes

Warrant

- ❑ Right to buy stock at a fixed price for some time in the future
 - ❑ Can be bought and sold

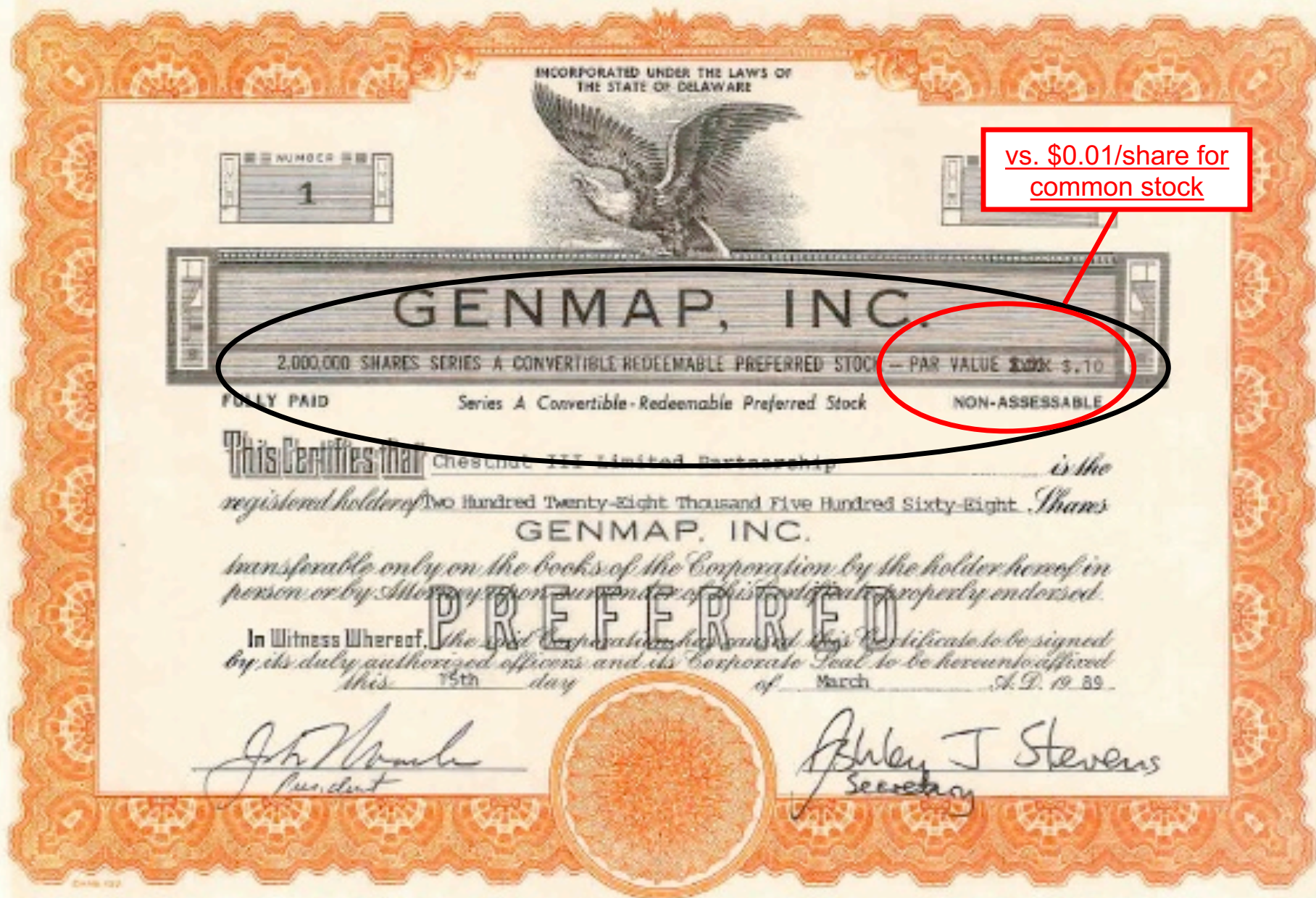
Definition

Preferred Stock

Stock with certain special rights over common stock


VC's usually invest by buying Participating Convertible Preferred Stock (convertible into Common)

- ☐ Liquidation preference
- ☐ Redemption
- ☐ Optional conversion
- ☐ Automatic conversion
- ☐ Anti-dilution provisions
- ☐ Pre-emptive rights
- ☐ Registration rights
- ☐ Board representation (usually)
- ☐ Dividends



Some resources to learn more

<http://www.angelcapitalassociation.org/data/Documents/Resources/1%20-%20Resources/Draft%20Term%20Sheet%20for%20Alliance%20of%20Angels.pdf>



Model Term Sheet for Alliance of Angels

This model term sheet, by Dan Rosen, CEO Dan Rosen & Associates, is for use by Alliance of Angels members as a starting point in negotiating seed stage deals. The AoA lead investor is noted as **«AoA Investors»** in the document. Each party in such deals should seek appropriate legal counsel. Except for the sections titled "Exclusivity" and "Confidentiality," this term sheet does not create a legally binding obligation on any person or entity.

<p>Company name</p> <p>Location</p> <p>Type of Entity</p> <p>Type of Equity</p> <p>Size of Offering</p> <p>Minimum to close</p> <p>Closing</p> <p>Valuation</p> <p>Pre-money</p> <p>Post-money</p> <p>Price per share</p>	<p>Acme, Inc</p> <p>«Company Address»</p> <p>Washington State Corporation</p> <p>Series A Preferred Stock</p> <p>\$750,000</p> <p>\$500,000</p> <p>On «Date» "the Closing Date" or when minimum to close is committed</p> <p>\$2,000,000</p> <p>\$2,750,000</p> <p>\$1.0256</p>	<p>Comment [DR1]: Some prefer Delaware incorporation. Washington state and Delaware have parallel laws, but Delaware has greater case law and therefore better protection for company Directors.</p> <p>Comment [DR2]: At times, Angels are asked to buy either common stock or S-Corp stock. Common makes sense in a limited situation: where an experienced entrepreneur has put lots of their own money into a company and you trust (based on experience with that individual) that they will treat investors well. S Corps cannot give preferred shares and should be avoided.</p> <p>Comment [DR3]: might also want to specify a latest close date for the round. If not met, it forces the company to come back to investors.</p>
--	--	---

Dan Rosen & Associates
Angel Term Sheet
Draft on 6 June 2011
Page 1

Some resources to learn more

Venture Deals: Be Smarter Than Your Lawyer and Venture Capitalist by *Brad Feld and Jason Mendelson*, John Wiley & Sons, Inc. August 2011; ~\$30 from Amazon.



Definitions

Series A, Series B, Series C.....

- ❑ Successive rounds of Preferred Stock
- ❑ Series B usually has precedence over Series A, and so on

Fully Diluted

- ❑ Number of shares that will be issued and outstanding when all the options and warrants that have been issued are exercised

Series A Venture Round

- ❑ Need to raise \$3 million
- ❑ Two funds put in \$1.5 million each
- ❑ 1,000,000 pool of shares created for stock options for future management that will be hired with the proceeds from the financing
- ❑ Price \$1.00 per share
 - ❑ Seed investors show a 25% profit
- ❑ Professor's stake now worth \$500,000 (+25%)

Series A Venture Round

Price per Share	\$1.00						
	<u>Shares</u>		<u>Series A</u>	<u>Raised</u>	<u>%</u>		<u>Value</u>
	<u>Common</u>				<u>I&O</u>	<u>FD</u>	
	<u>Shares</u>	<u>Options</u>					
Professor	500,000				8.7%	7.4%	\$500,000
Postdoc A	250,000				4.3%	3.7%	\$250,000
Postdoc B	250,000				4.3%	3.7%	\$250,000
University	500,000				8.7%	7.4%	\$500,000
CEO	1,000,000				17.4%	14.8%	\$1,000,000
Seed investors	250,000				4.3%	3.7%	\$250,000
Management Pool		1,000,000				14.8%	\$1,000,000
VC Fund A			1,500,000	\$1,500,000	26.1%	22.2%	\$1,500,000
VC Fund B			1,500,000	\$1,500,000	26.1%	22.2%	\$1,500,000
Total	2,750,000	1,000,000	3,000,000	\$3,000,000	100%	100%	\$6,750,000
Issued & outstanding	5,750,000						
Fully diluted	6,750,000						
Raised in this round	\$3,000,000						
Cumulative raised	\$3,225,000						
Pre-Money	\$3,750,000						
Post-Money	\$6,750,000						

Series B Venture Round

- ❑ Need to raise \$10 million
- ❑ \$2.00 per share
 - ❑ Sell 5 million shares
- ❑ First two funds participate
- ❑ New fund leads the round
 - ❑ First two funds can report increased value for Series A investment
- ❑ Further increase in management option pool
 - ❑ Additional 1 million shares
- ❑ Professor's stake now worth \$1 million
 - ❑ +100%

Series B Venture Round

Price per Share

\$2.00

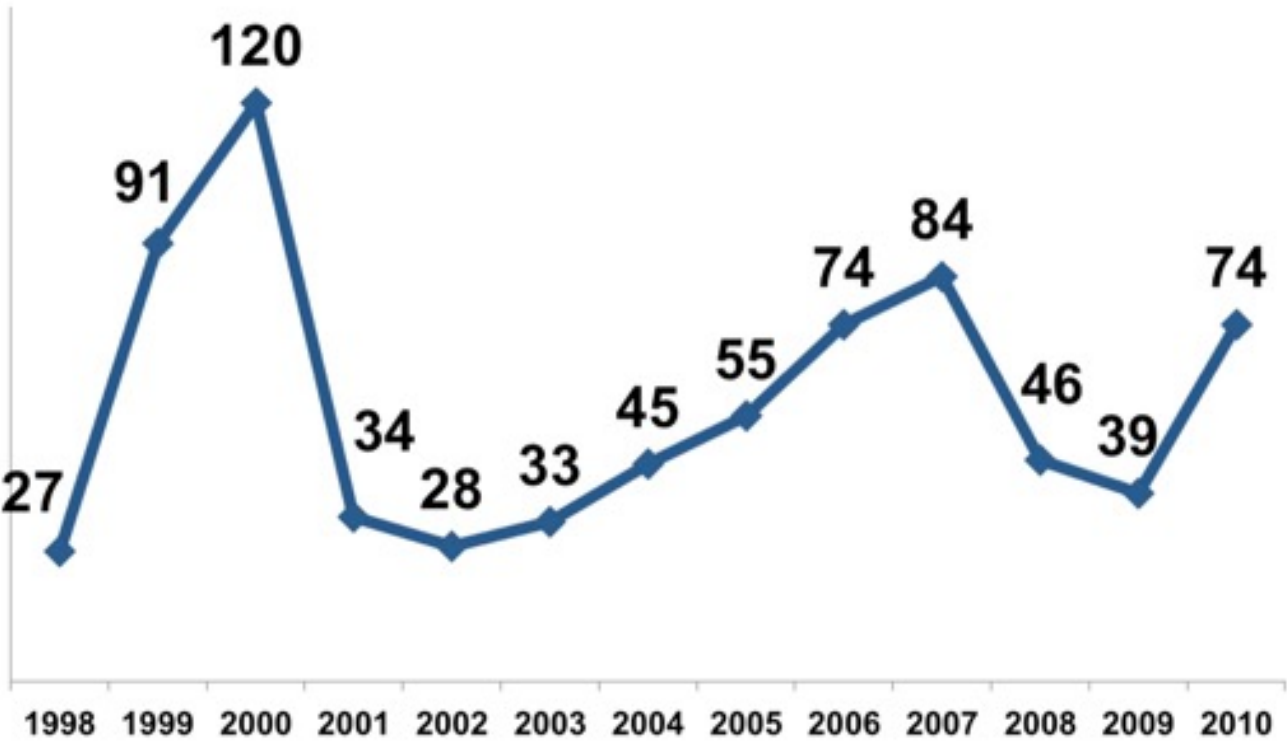
	<u>Shares</u>		<u>Series A</u>		<u>Series B</u>	<u>Raised</u>	<u>%</u>		<u>Value</u>
	<u>Common</u>						<u>I&O</u>	<u>FD</u>	
	<u>Shares</u>	<u>Options</u>							
Professor	500,000						4.7%	3.9%	\$1,000,000
Postdoc A	250,000						2.3%	2.0%	\$500,000
Postdoc B	250,000						2.3%	2.0%	\$500,000
University	500,000						4.7%	3.9%	\$1,000,000
CEO	1,000,000						9.3%	7.8%	\$2,000,000
Seed investors	250,000						2.3%	2.0%	\$500,000
Management Pool		2,000,000						15.7%	\$4,000,000
VC Fund A			1,500,000		1,500,000	\$3,000,000	27.9%	23.5%	\$6,000,000
VC Fund B			1,500,000		1,500,000	\$3,000,000	27.9%	23.5%	\$6,000,000
VC Fund C					2,000,000	\$4,000,000	18.6%	15.7%	\$4,000,000
Total	2,750,000	2,000,000	3,000,000		5,000,000	\$10,000,000	100%	100%	\$25,500,000

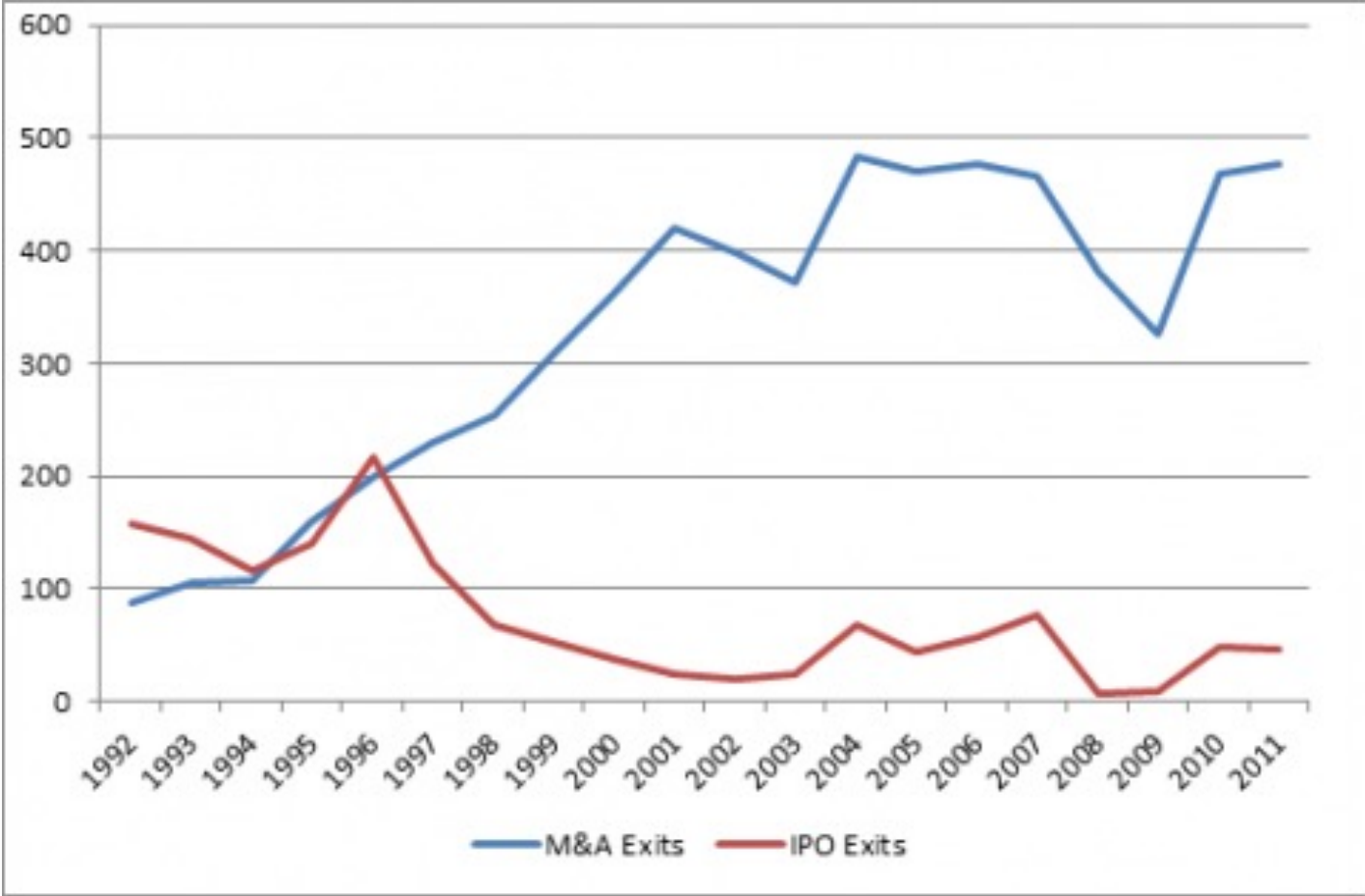
Issued and outstanding	10,750,000
Fully diluted	12,750,000
Raised in this round	\$10,000,000
Cumulative raised	\$13,225,000

Pre-Money	\$15,500,000
Post-Money	\$25,500,000

The Exit

There Aren't Many Exits > \$100 million





Initial Public Offering

- ❑ Company is ready to sell stock to the public
- ❑ Sells 8 million shares to the public at \$8.00 per share
- ❑ Professor's stake now worth \$4,000,000
 - ❑ +300%

AMENDMENT NO. 6
TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

TALECRIS BIOTHERAPEUTICS HOLDINGS CORP.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

2834
(Primary Standard Industrial
Classification Code Number)

20-2533768
(I.R.S. Employer
Identification No.)

P.O. Box 110526
4101 Research Commons
79 T.W. Alexander Drive
Research Triangle Park, North Carolina 27709
(919) 316-6300
(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

LAWRENCE D. STERN
Chairman and Chief Executive Officer
TALECRIS BIOTHERAPEUTICS HOLDINGS CORP.
P.O. Box 110526
4101 Research Commons
79 T.W. Alexander Drive
Research Triangle Park, North Carolina 27709
(919) 316-6300
(Name, address, including zip code, and telephone number,
including area code, of agent for service)

with copies to:

JOHN F. GAITHER, Jr.
Executive Vice President,
General Counsel and Secretary
TALECRIS BIOTHERAPEUTICS
HOLDINGS CORP.
P.O. Box 110526
4101 Research Commons
79 T.W. Alexander Drive
Research Triangle Park,
North Carolina 27709
(919) 316-6300
(252) 390-6623 (facsimile)

GLEN T. SCHLEYER
SULLIVAN & CROMWELL LLP
125 Broad Street
New York, New York 10004
(212) 558-4000
(212) 558-3588 (facsimile)

GERARD S. DIFIORE
ARON BOWER
REED SMITH LLP
599 Lexington Avenue
New York, New York 10022
(212) 521-5400
(212) 521-5450 (facsimile)

Approximate date of commencement of proposed sale to the public:
As soon as practicable after this Registration Statement is declared effective.

If registered on this Form are offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act") please check the following box. ☐

If additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

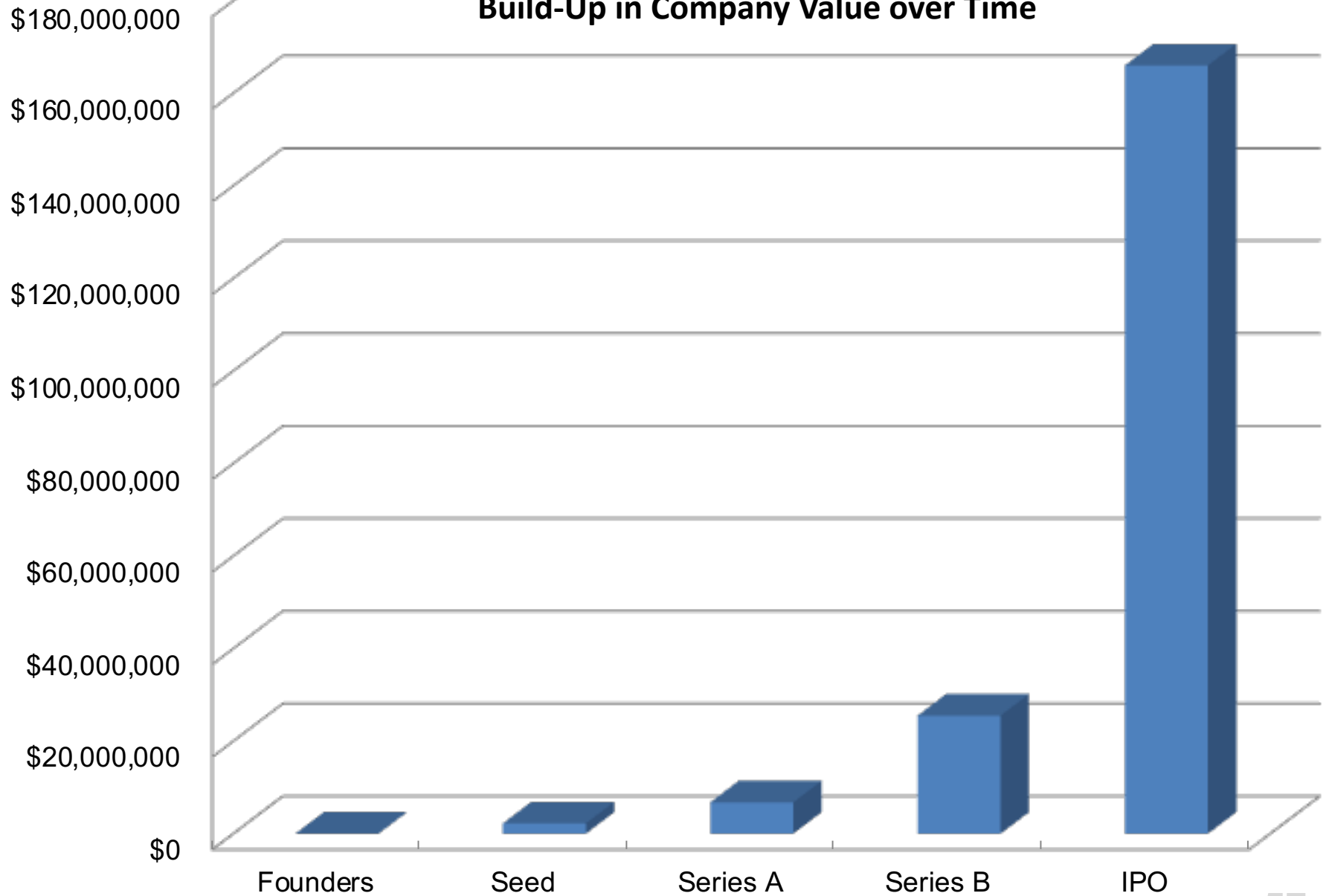
IPO

Price per Share

\$8.00

	<u>Shares</u> <u>Common</u>	<u>Raised</u>	<u>%</u> <u>I&O</u>	<u>FD</u>	<u>Value</u>
	<u>Shares</u>				
Professor	500,000		2.4%	2.4%	\$4,000,000
Postdoc A	250,000		1.2%	1.2%	\$2,000,000
Postdoc B	250,000		1.2%	1.2%	\$2,000,000
University	500,000		2.4%	2.4%	\$4,000,000
CEO	1,000,000		4.8%	4.8%	\$8,000,000
Seed investors	250,000		1.2%	1.2%	\$2,000,000
Management Pool	2,000,000		9.6%	9.6%	\$16,000,000
VC Fund A	3,000,000		14.5%	14.5%	\$24,000,000
VC Fund B	3,000,000		14.5%	14.5%	\$24,000,000
VC Fund C	2,000,000		9.6%	9.6%	\$16,000,000
Public Investors	8,000,000	\$64,000,000	38.6%	38.6%	\$64,000,000
Total	20,750,000	\$64,000,000	100%	100%	\$166,000,000
Issued & outstanding	20,750,000				
Fully diluted	20,750,000				
Raised in this round	\$64,000,000				
Cumulative raised	\$77,225,000				
Pre-Money	\$102,000,000				
Post-Money	\$166,000,000				

Build-Up in Company Value over Time



Definitions

Registered Stock

Stock that has been issued under a registration statement approved by the SEC and can be freely sold to the public

Unregistered Stock

Stock that has been sold not in connection with a registration statement approved by the SEC; cannot be sold in the public markets

Life After the IPO

- ❑ Can't immediately sell stock
- ❑ Underwriters will normally impose a 180 day lock-up on all pre-IPO stock
 - ❑ Once saw a European IPO with a 1 year lock-up
- ❑ Remaining stock needs to be registered to sell
 - ❑ Can sell limited amounts under Rule 144

"The transfer of the shares of stock represented by this Certificate is restricted under the terms of a Co-Sale Agreement dated as of March 15, 1989, a copy of which is on file at the office of the Company."



For Value Received, _____ hereby sell, assign and transfer
unto _____
Shares
represented by the within Certificate, and do hereby
irrevocably constitute and appoint _____
Attorney
to transfer the said Shares on the books of the within named
Corporation with full power of substitution in the premises.
Dated _____ 19____
In presence of _____

NOTICE: THE SIGNATURE OF THE SECRETARY OF STATE IS REQUIRED FOR THE VALIDITY OF THIS CERTIFICATE. IN THE EVENT OF A SIGNATURE, THE SIGNATURE OF THE SECRETARY OF STATE IS REQUIRED FOR THE VALIDITY OF THIS CERTIFICATE.

The Dark Side -- Things Go Wrong

- ❑ Company does not meet its milestones for Series B financing
- ❑ Series B price is \$0.60 per share, not \$2.00 per share
 - ❑ A “Down Round”
 - ❑ Can’t bring in Fund C
 - ❑ Only existing investors will participate
- ❑ Now needs \$11 million to get to IPO
 - ❑ \$1 million to get back on track
 - ❑ \$10 million to go to market
- ❑ Has to sell 18,333,333 shares to raise \$11 million, not 2,000,000 shares
- ❑ Professors stake now worth \$300,000
 - ❑ Down 33% (vs up 400% in happy scenario)
- ❑ Major shift in ownership from common to preferred

Series B Venture Round

Price per Share

\$0.60

	<u>Shares</u>		<u>Series A</u>	<u>Series B</u>	<u>Raised</u>	<u>%</u>		<u>Value</u>
	<u>Common</u>					<u>I&O</u>	<u>FD</u>	
	<u>Shares</u>	<u>Options</u>						
Professor	500,000					2.2%	2.0%	\$300,000
Postdoc A	250,000					1.1%	1.0%	\$150,000
Postdoc B	250,000					1.1%	1.0%	\$150,000
University	500,000					2.2%	2.0%	\$300,000
CEO	1,000,000					4.3%	4.0%	\$600,000
Seed investors	250,000					1.1%	1.0%	\$150,000
Management Pool		2,000,000					8.0%	\$1,200,000
VC Fund A			1,000,000	9,166,667	\$ 5,500,000	44.0%	40.5%	\$6,100,000
VC Fund B			1,000,000	9,166,667	\$ 5,500,000	44.0%	40.5%	\$6,100,000
Total	2,750,000	2,000,000	2,000,000	18,333,333	\$ 11,000,000	100%	100%	\$15,050,000
Issued \$ outstanding	23,083,333							
Fully diluted	25,083,333							
Raised in this round	\$11,000,000							
Cumulative raised	\$14,225,000							
Pre-Money	\$4,050,000							
Post-Money	\$15,050,000							

IPO with Reverse Split

- ❑ Because of Cram Down, investment bankers may decide Company needs to reduce number of shares outstanding
 - ❑ 25,083,333 FD shares vs. 12,750,000
- ❑ Reverse split, 1 for 2
 - ❑ Gets back close to 13,000,000 shares
- ❑ Professor's stake now worth \$2,000,000, +667%

Example:

- ❑ Acusphere (MIT/Langer) did Series A, B, C, D, E, F, G, H, I and J financings!
 - ❑ Founded 1993
 - ❑ Perflubutane polymer microspheres for detection of coronary artery disease
 - ❑ Never got anything approved anywhere
- ❑ 1 for 10 reverse split prior to IPO
 - ❑ \$14/share, 2003
 - ❑ And it did **ANOTHER** 1 for 10 reverse split in 2012
 - ❑ Seems to finally have quietly died in 2012 – 19 years!

IPO with Reverse Split

Price per Share

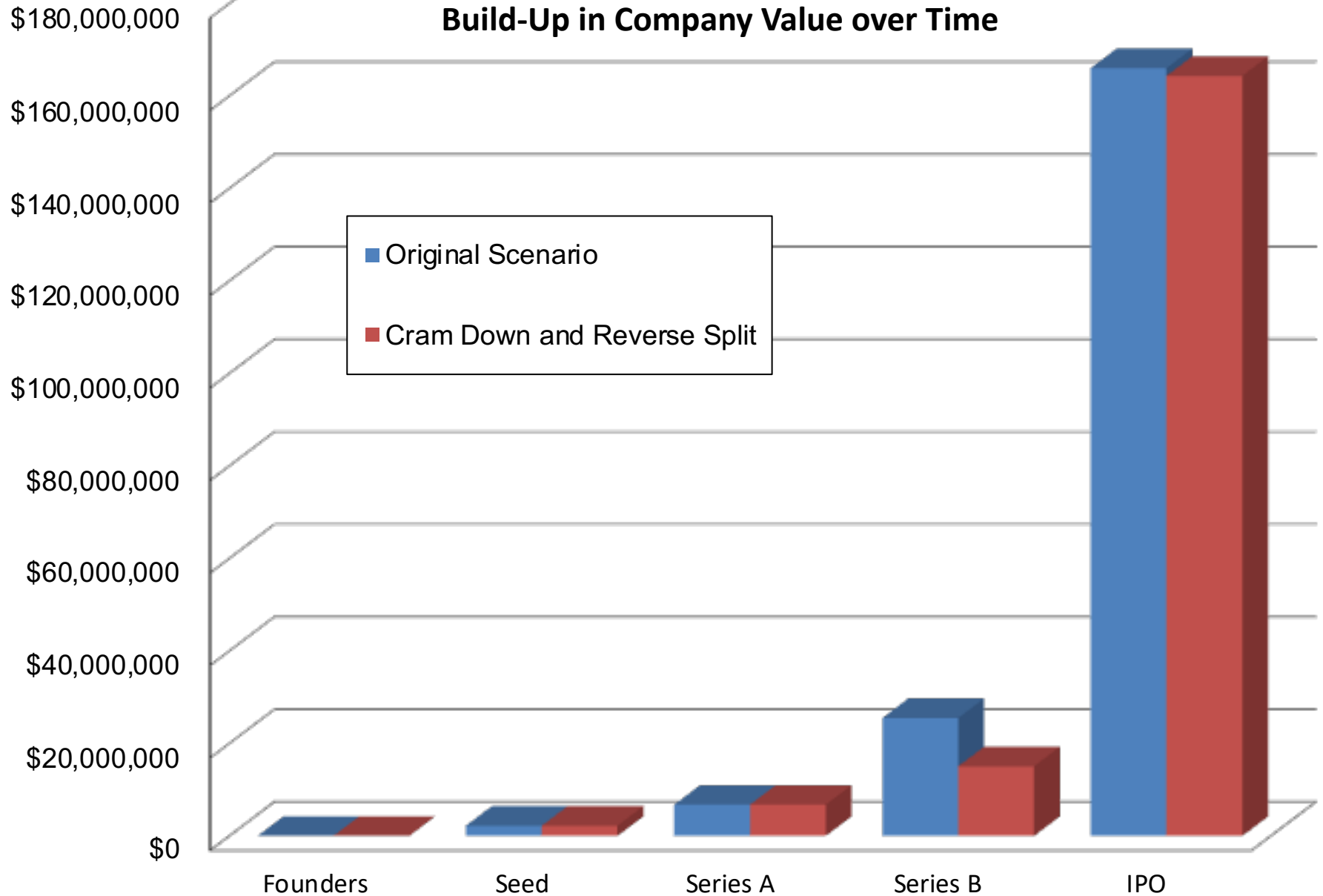
\$8.00

Reverse Split

1 for 2

	<u>Shares Common Shares</u>	<u>Raised</u>	<u>% I&O</u>	<u>Value</u>	<u>Original Scenario Value</u>	<u>Diff</u>
Professor	250,000		1.2%	\$2,000,000	\$4,000,000	(\$2,000,000)
Postdoc A	125,000		0.6%	\$1,000,000	\$2,000,000	(\$1,000,000)
Postdoc B	125,000		0.6%	\$1,000,000	\$2,000,000	(\$1,000,000)
University	250,000		1.2%	\$2,000,000	\$4,000,000	(\$2,000,000)
CEO	500,000		2.4%	\$4,000,000	\$8,000,000	(\$4,000,000)
Seed investors	125,000		0.6%	\$1,000,000	\$2,000,000	(\$1,000,000)
Management Pool	1,000,000		4.9%	\$8,000,000	\$16,000,000	(\$8,000,000)
VC Fund A	5,083,333		24.7%	\$40,666,667	\$24,000,000	\$16,666,667
VC Fund B	5,083,333		24.7%	\$40,666,667	\$24,000,000	\$16,666,667
VC Fund C					\$16,000,000	(\$16,000,000)
Public Investors	8,000,000	\$64,000,000	38.9%	\$64,000,000	\$64,000,000	\$0
Total	20,541,667	\$64,000,000	100%	\$164,333,333	\$166,000,000	(\$1,666,667)
Issued & outstanding	20,541,667				\$20,750,000	(\$208,333)
Fully diluted	20,541,667				\$20,750,000	(\$208,333)
Raised in this round	\$64,000,000				\$64,000,000	\$0
Cumulative raised	\$78,225,000				\$77,210,000	\$1,000,000
Pre-Money	\$100,333,333				\$102,000,000	(\$1,666,667)
Post-Money	\$164,333,333				\$166,000,000	(\$1,666,667)

Build-Up in Company Value over Time



Acquisition

- ❑ The alternative to IPO
- ❑ Benefit
 - ❑ Immediate liquidity
- ❑ The Dark Side
 - ❑ From the Entrepreneurs' and Managements' perspectives
 - ❑ Liquidation Preferences

Definition

Liquidation Preference

- ❑ Payment received by preferred stock holder on liquidation or acquisition of the company
 - ❑ Usually at least equal to the original investment
 - ❑ Can be multiples of the original investment

Participating Preferred Stock

- ❑ After payment of the preferences, remaining funds are distributed *pro rata* to **ALL** shareholders
 - ❑ Including preferred
 - ❑ A double dip
 - ❑ VC's love acquisitions

Acquisition with Liquidation Preferences

Acquisition Price **\$91,800,000**

Per share **\$7.2**

Liquid. Pref.			Price
Series A	1	x	\$ 1.00
Series B	1	x	\$ 2.00

	<u>Shares</u>			<u>%</u>		<u>Proceeds</u>						
	<u>Common</u>		<u>Series A</u>	<u>Series B</u>	<u>I&O</u>	<u>FD</u>	<u>Preferences</u>	<u>Balance</u>	<u>Total</u>	<u>IPO</u>	<u>Δ</u>	<u>%</u>
	<u>Shares</u>	<u>Options</u>										
Professor	500,000				4.7%	3.9%		\$3,090,196	\$3,090,196	\$4,000,000	(\$909,804)	77.3%
Postdoc A	250,000				2.3%	2.0%		\$1,545,098	\$1,545,098	\$2,000,000	(\$454,902)	77.3%
Postdoc B	250,000				2.3%	2.0%		\$1,545,098	\$1,545,098	\$2,000,000	(\$454,902)	77.3%
University	500,000				4.7%	3.9%		\$3,090,196	\$3,090,196	\$4,000,000	(\$909,804)	77.3%
CEO	1,000,000				9.3%	7.8%		\$6,180,392	\$6,180,392	\$8,000,000	(\$1,819,608)	77.3%
Seed investors	250,000				2.3%	2.0%		\$1,545,098	\$1,545,098	\$2,000,000	(\$454,902)	77.3%
Mgmt Pool		2,000,000				15.7%		\$12,360,784	\$12,360,784	\$16,000,000	(\$3,639,216)	77.3%
VC Fund A			1,500,000	1,500,000	27.9%	23.5%	\$4,500,000	\$18,541,176	\$23,041,176	\$24,000,000	(\$958,824)	96.0%
VC Fund B			1,500,000	1,500,000	27.9%	23.5%	\$4,500,000	\$18,541,176	\$23,041,176	\$24,000,000	(\$958,824)	96.0%
VC Fund C				2,000,000	18.6%	15.7%	\$4,000,000	\$12,360,784	\$16,360,784	\$16,000,000	\$360,784	102.3%
Total	2,750,000	2,000,000	3,000,000	5,000,000	100%	100%	\$13,000,000	\$78,800,000	\$91,800,000	\$102,000,000	(\$10,200,000)	90.0%
Issued & Outstanding	10,750,000											
Fully Diluted	12,750,000											

Acquisition with Liquidation Preferences after Cram Down

Acquisition Price **\$91,800,000**

Per share **\$7.2**

Liquidation Preferences

Series A	1	x	\$	1.00
Series B	3	x	\$	0.60

	<u>Shares</u>		<u>Series A</u>	<u>Series B</u>	<u>%</u>		<u>Preferences</u>	<u>Proceeds</u>		<u>Total</u>	<u>Base Case</u>	<u>Δ</u>	<u>%</u>
	<u>Common</u>	<u>Options</u>			<u>I&O</u>	<u>FD</u>		<u>Balance</u>	<u>Total</u>				
Professor A	500,000				2.2%	2.0%		\$1,132,226	\$1,132,226	\$3,090,196		(\$1,957,970)	36.6%
Postdoc B	250,000				1.1%	1.0%		\$566,113	\$566,113	\$1,545,098		(\$978,985)	36.6%
Postdoc C	250,000				1.1%	1.0%		\$566,113	\$566,113	\$1,545,098		(\$978,985)	36.6%
University	500,000				2.2%	2.0%		\$1,132,226	\$1,132,226	\$3,090,196		(\$1,957,970)	36.6%
CEO	1,000,000				4.3%	4.0%		\$2,264,452	\$2,264,452	\$6,180,392		(\$3,915,940)	36.6%
Seed investors	250,000				1.1%	1.0%		\$566,113	\$566,113	\$1,545,098		(\$978,985)	36.6%
Management Pool		2,000,000				8.0%		\$4,528,904	\$4,528,904	\$12,360,784		(\$7,831,881)	36.6%
VC Fund A			1,000,000	9,166,667	44.0%	40.5%	\$17,500,000	\$23,021,927	\$40,521,927	\$23,041,176		\$17,480,750	175.9%
VC Fund B			1,000,000	9,166,667	44.0%	40.5%	\$17,500,000	\$23,021,927	\$40,521,927	\$23,041,176		\$17,480,750	175.9%
VC Fund C											\$16,360,784	(\$16,360,784)	
Total	2,750,000	2,000,000	2,000,000	18,333,333	100%	100%	\$35,000,000	\$56,800,000	\$91,800,000	\$91,800,000		\$0	100.0%
Issued and outstanding	23,083,333												
Fully diluted	25,083,333												

How do you know what to sell company for?

- ❑ Two main bases for high tech companies
- ❑ If public, market cap plus a premium

X

- ❑ If private --
i.e., X times its sales
- ❑ Every industry has its “X”
 - ❑ Find three or four recent transactions in the same space and calculate
- ❑ Pharmaceuticals:
 - ❑ $X=5$
 - ❑ E.g., Genzyme’s sales were \$4 billion
 - ❑ Sanofi paid \$20 billion

And if this is all too complicated.....

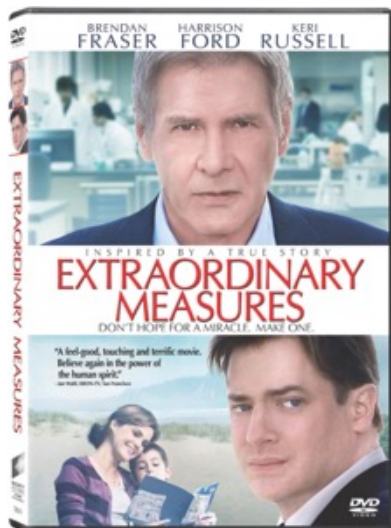
- ❑ Don't bother to take equity at all
 - ❑ Who cares about owning stock?
 - ❑ What we really want is to be able to sell the stock
 - ❑ So ask for an Exit Fee instead
 - ❑ Paid if:
 - ❑ Change of control (acquisition)
 - ❑ IPO
 - ❑ 1 – 3% of amount raised (acquisition) / pre-money value (IPO)
- ❑ Benefits:
 - ❑ Simpler, cleaner
 - ❑ May help with Col
 - ❑ No issues of Board representation
- ❑ Examples:
 - ❑ NIH

For More Information

- ❑ “The Art of the Cap Table” Ashley Stevens, *Journal of Commercial Biotechnology* (2012) 18, 83–97. doi: 10.5912/jcb.522;
- ❑ Or email me:
 - ❑ I’ll send you a copy
 - ❑ Plus the spreadsheet that this talk and the article were based on.

Two Great Movies About Start-Ups

- ❑ Startup.com
 - ❑ Two guys start a dot.com. Filmed in real time as it was happening
- ❑ Extraordinary Measures
 - ❑ The very thinly disguised account of the development of Lumizyme. Harrison Ford



development of

Thank you for listening

Questions?

astevens@bu.edu

Anti-Dilution Protection

- ❑ Two types
- ❑ University negotiating model
 - ❑ “Give me a small percentage, but keep me at that percentage until serious money has gone in and the value of the company is set”
 - ❑ Viable as long as the percentage ownership is viable and the amount raised is reasonable
 - ❑ 5% till \$5 million raised
 - ❑ Example at end
- ❑ VC Anti-Dilution
 - ❑ Protect against later down rounds
 - ❑ Gets extra stock to compensate for earlier purchases at a higher price
 - ❑ Full ratchet anti-dilution
 - ❑ Weighted average anti-dilution
 - ❑ Narrow
 - ❑ Broad
 - ❑ Common stock shareholders get hit
 - ❑ Management, Founders, non-investors
 - ❑ University can negotiate down round anti-dilution protection