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UNIVERSITY OF OXFORD

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iCampus

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This Note was prepared by Professor Tim Jenkinson and Aunnie Patton (MBA 2012).

Introduction

As Janet Sayers and Andy Lawrence sat contemplating the documents in front of them, Andy's cell phone broke the silence with a loud ding. As he looked down at the alert, he smiled broadly, "Janet, we just hit a 100,000 users". Sayer's intense concentration was broken by a grin as the CEO raised her hand to high-five her COO. "Now if only we can understand these term sheets as quickly as we can add users," she quipped, returning her gaze to the papers.

It was August 2011; 14 months ago Sayers and Lawrence had founded iCampus with the goal of creating a robust online platform for the creation and distribution of curriculum from top-tier universities. Now, with over 50 university professors contributing to the free content portion of the site and two universities piloting the beta version of the paid platform, the company had hit an inflection point. With server and software development costs growing and the initial capital they had contributed nearly depleted, Sayers and Lawrence had begun approaching venture capital firms (VC) for seed (first round) investment in June. After over two months and several meetings, they now had in front of them two term sheets that laid out the investment offers from Eliot Capital and Lewis Capital Partners. Unfortunately, neither CEO nor COO had ever negotiated a term sheet before.

"We've planned our expenses very carefully," observed Lawrence, "but if we want to maintain this rate of growth and secure institutional clients, we need cash, and we need it quickly. At this burn rate, we don't have much more than a month of cash left". Sayers nodded in agreement, "realistically, we have until tomorrow to evaluate these deals and start negotiating, if we want any chance of getting the money in time".

iCampus®

Andy Lawrence began his career as a web developer for start-ups in the 1990s. After the dot-com crash, he moved to the educational conglomerate Stamford Lampard to head a team tasked with creating web based platforms to distribute Stamford's educational curriculum to primary and secondary school students and teachers. In 2009, on a visit to his alma mater, the California Institute of Technology (CIT), Lawrence had been seated at a dinner with the undergraduate business program director Janet Sayers. During the dinner, they had an in-depth discussion about the need for CIT to move more towards an integrated approach to the creation and distribution of digital content. As a former strategy professor, Sayers had some experience creating digital educational content for the university. Through her work consulting with start-ups in Silicon Valley, she had also seen the growth of online communities and sophisticated distribution networks that linked multiple devices and technologies.

Over the next few months, Sayers and Lawrence continued to brainstorm around creating a platform that could distribute university content seamlessly across multiple channels, including classrooms, personal computers and the newly prevalent smartphones, and to multiple user bases, including students, alumni, professors and the wider public. In 2010, with the app revolution and the Open Course Ware (OCW) movement gaining popularity, they both decided that the time had come to build a company to fill the future demand of brick and mortar universities to showcase their curriculums and engage their students, alumni and professors.

So, in May 2010, Lawrence left Stamford Lampard and Sayers hired a successor for the 2010 school year, which allowed her to work part-time until her August 2010 departure date.

The initial structure of the platform had two distinct parts; free content created by university professors and available to registered users, and bespoke paid platforms for universities. Lawrence began coding for both parts of platforms immediately, aided by team of remotely managed developers in Eastern Europe. With her connections to university administrators and directors, Sayers initiated sales discussions at major universities around the country. The site launched in February 2011 with content from twelve leading professors, who had been invited to contribute lectures and materials. In June 2011, CIT became the first university to launch a beta platform, rolling out initially to their undergraduate finance department.

Search for capital

Sayers and Lawrence had begun their search for capital in June 2011, when it became clear that the success of the company depended on a cash injection. When the site launched, they had assumed a burn rate of $20K a month, which gave them 10 months of cash. But in May, they hit 50,000 users, which exceeded their initial projections and resulted in substantially increased server and development costs. Additionally, a second university had joined CIT in beta testing, but both universities made it clear that they would wait to roll out the system until iCampus had secured funding. Sayers and Lawrence now projected that they needed $3MM for the next 18 months to hire developers, expand server capacity and implement their marketing strategy for the paid platform.

Although she had never raised funding herself, Sayers had several former students in prominent VC firms in the Bay Area. Before making formal pitches to the firms, Sayers approached her contacts informally and their positive reaction to the platform paved the way for formal presentations to senior partners. After two months and over a half a dozen such pitches, Sayers and Lawrence had worried that the VC's concerns around the monetization of the product would prevent any concrete investment offers. Thus, they were relieved when Eliot Capital and Lewis Capital Partners had presented them with term sheets within short order of each other.

Both Sayers and Lawrence had enjoyed their interactions with the partners at Eliot and Lewis. Eliot had been particularly concerned about the ability to monetize the platform. They wanted to see iCampus focus on expanding their paid users in the near-term and allow the free content to grow organically, without a major marketing push from the company. Lewis had been more excited by the cross subsidization of the paid and free content and had seen the dramatic growth of free users as evidence that the market for the platform would go far beyond brick and mortar universities. Both firms had stressed the need for a CFO and a dedicated development team in California.

Sayers and Lawrence assumed that term sheets reflected the two firms' different approaches to the value and future of the company. Now, as they sat poring over them, they knew they would need to understand the offers to be able to choose the one that would best equip iCampus to grow.

Exhibit 1: Term sheet from Eliot Capital, August 2011

Issuer	**iCampus, Inc.** a Delaware corporation ("Company").
Investor	**Eliot Capital** ("Eliot" or "Investors").
Share Issue	The investment will be made in the form of 3,000,000 Series A Convertible Participating Preferred Shares ("Series A Preferred").
Valuation	The investment will be at a fully diluted pre-money valuation of $10MM, including employee share options ("Options Pool") equal to 20% of the fully diluted equity. The $3MM investment will represent a 23.1% shareholding for the Investors on a fully diluted basis. The investment will be staged, with 60% (1,800,000 shares at $1.00 per share) being invested at closing (the "First Tranche") and 40% (1,200,000 shares) being invested subsequently (the "Second Tranche"). The Investors will have the right, but not the obligation to subscribe for the Second Tranche at the same price per share as the First Tranche. The board of directors of the Company (the "Board") will have the right to call the Second Tranche within 6 months of the First Tranche provided that the performance milestones (detailed below) have been met.
Milestones	Contracts signed with three universities for full distribution of the paid platform, equaling at least $1[illegible]000 of revenue for the FYE June 2012.
Option Pool	The expansion of the Options Pool prior to the investment to represent 2,000,000 shares. These shares will be reserved for new employees. The Company shall not increase the Options Pool without the consent of the holders of a majority of the then outstanding Series A Preferred. Unless subsequently agreed to the contrary by the holders of 60% of Series A Preferred, any issuance of shares in excess of the Options Pools will be a dilutive event requiring the issuance of additional shares of Common. Once granted, shares in the Option Pool will have a linear three-year vesting period.
Dividends	The holders of Series A Preferred shall have a cumulative coupon of 10% per year starting on the one-year anniversary of the issuance of the First Tranche. The coupon shall cease to accrue when the per share amount totals 30% of the Series A Preferred purchase price. Any other dividends or distributions will be payable to all shareholders on a pro rata basis (in the case of the holders of Preferred Shares, determined on an as converted basis).
Vesting	Common Shares vest 20% on closing, with the rest vesting linearly over a two-year period. The Company has the right to repurchase unvested shares at cost in the event of employment termination.

Board Structure	Proposed five-member board. The Series A Preferred will be entitled to elect two representatives. The Common Shares will be entitled to elect two representatives (one of them being Janet Sayers, CEO). The Series A Preferred will nominate one outside representative, to be approved by the Common Shares.
Anti-Dilution	The Series A Preferred will have a full ratchet anti-dilution protection in the case of any new issue of shares at a price below the Original Purchase Price (excluding the issuance of shares to expand the Options Pool as approved by the Preferred).
Liquidation	Upon liquidation or winding up of the Company, the Series A Preferred will be entitled to receive in preference to all other shareholders an amount per share equal to two (2) times the Original Purchase Price and all accrued but unpaid dividends on Series A Preferred. For the remaining amounts, the Series A Preferred will participate with the holders of Common Shares on a pro-rata basis.
Conversion	Investors may convert the shares of Series A Preferred into an equivalent number of Common Shares at any time. Series A Preferred will be automatically converted into Common at the then conversion price, in the event of an underwritten public offering of shares of the Common at a total public offering no less than $50MM ("Qualified Public Offering").
Drag-Along	In the event that a majority of the Series A Preferred accepts an offer to sell all of their shares to a third party, and such sale is conditioned upon the sale of all the remaining shares of the Company to such a third party, all other shareholders shall be required to sell their shares. Such a transaction will be subject to the same terms and conditions of the liquidation preferences above.
Tag-Along	Each of the holders of Series A Preferred shall have the right to participate, on a pro rata basis and on identical terms, in an sale of Common Shares or Preferred Shares exceeding 20% of the shares in issue at the time to third parties.
Right of First Refusal	Investors will have a right of first refusal on any new issue of shares of any class. Investors will have a right of first refusal to acquire any Preferred Shares that are proposed to be transferred or sold with any Preferred Shares not taken up in such offer being offered to the holders of Common Shares.
Key Person Insurance	Within 1 month of closing, the Company must acquire key person insurance on Janet Lawrence and Andy Lawrence for the amount of $1MM, naming the Company the beneficiary.
Remuneration Committee	The Company will form a Remuneration Committee upon completion and the Investor Director will be the chairman.
Non-Disclosure	Each officer and employee of the Company with access to proprietary information will have entered into a nondisclosure and developments agreement in a form reasonably acceptable to the Investors.

Representations and Warranties

Standard representations and warranties from the Company.

Voting Rights

Series A Preferred Stock votes on an as-converted basis, but also as class and series vote as provided by law. In addition, approval of the Preferred Stock Majority shall be required in respect of various matters including (without limit)

(i) the issue or creation of any senior or pari passu security (veto right for Investor save on a subsequent fundraising round where it shall also require the consent of the majority of the issued Series A shares);
(ii) payment of dividends on any class of stock;
(iii) redemption or repurchases of Common Shares or Preferred Shares except for purchases at cost upon termination of service or the exercise by the Company of contractual rights of first refusal over shares;
(iv) any transaction in which the control of the Company is transferred, or a sale of all or substantially all of the assets of the Company;
(v) any increase or decrease in the number of authorized and issued shares of any class of stock;
(vi) any adverse change to the rights, preferences and privileges of the Series A Preferred;
(vii) any incurrence of indebtedness in excess of $100,000
(viii) any change in the principal business of the company or the entering into any new line of business
(ix) any amendment to the articles of association;
(x) any IPO or listing of shares; and
(xi) any increase or decrease in the size of the Board.

Information Rights

Holders of Series A Preferred shall receive standard information rights including audited financial reports, quarterly and monthly unaudited financial reports and annual budget and business plan, as well as standard inspection rights.

Use of Proceeds

The proceeds from the investment must be used for the Company's working capital requirements including the recruiting of a Chief Financial Officer, a head of Marketing and a U.S. based software development team.

Exclusivity

Investor to be granted exclusivity for a period of six weeks upon signing the term sheet.

Closing Conditions

The closing of the transactions hereby contemplated is subject to respective Investment Committee approvals, completion of due diligence, subject to contract and execution of legal agreements satisfactory to the Investors and the Company.

Closing Date

October 15, 2011

Expenses

Investor counsel to draft closing documents. The Company to pay all Investor legal and administrative costs of the financing, not to exceed $20,000 plus disbursements.

Exhibit 2: Term sheet from Lewis Capital, August 2011

Lewis Capital ("Lewis" or "Investor") is pleased to present our proposal for investment in iCampus ("Company").

Investment

Offer	Purchase of 2,750,000 shares of Series A convertible preferred shares ("Series A Preferred") at a price of $1.00 per Series A Preferred Share ("Original Purchase Price"). These shares will be in addition to 4,500,000 outstanding Common Shares ("Common"). In addition, at closing, the Company will reserve 1,250,000 shares of Common for issuance under its stock option plan ("Option Shares"). The Option Shares will have an exercise price equal to the Original Issue Price and will be granted to new employees and founders. Following grant, these options will vest monthly over a two-year period. The Option Share pool will be subject to board approval for expansion.
Milestones	None
Dividends	Any dividends or distributions will be payable to all shareholders on a pro rate basis.

Conditions of Investment

Closing Conditions	The closing of the transactions is subject to Investment Committee approvals, subject to contract and execution of legal agreements satisfactory to the Investors and the Company.
Key Person Insurance	Within 3 months of closing, the Company must acquire key person insurance on Janet Lawrence and Andy Lawrence for the amount of $1MM, naming the Company the beneficiary.
Non-Disclosure	By closing, each employee of the Company will have entered into a proprietary information agreement in a form acceptable to the Investors.
Vesting	Founder's shares vest 30% on closing, with remainder to have a 24-month vesting with a 12-month cliff and linear monthly vesting thereafter. The Company has the right to repurchase unvested shares at cost in the event of employment termination. By closing the founders will have executed an employment agreement mutually agreeable to the founders and the investors.
Use of Proceeds	Proceeds will be used for working capital.
Exclusivity	Investor to be granted exclusivity for a period of three weeks upon signing the term sheet.
Representations and	Standard representations and warranties from the Company.

Warranties

Terms of Investment

Board	The Board will have a maximum of five members. The Series A Preferred will be entitled to elect two representatives, the Common will be entitled to elect one representative and the Series A Preferred and Common, voting together on an as-converted basis, will elect two outside representatives.
Remuneration Committee	The Company will form a Remuneration Committee upon completion and an Investor Director will be the chairman. Individual employee pay will be initially capped at $70,000 per annum.
Expenses	Each party shall be solely liable for all of its own fees, costs and other expenses in conjunction with negotiation and preparation of a final agreement pursuant to this Summary of Terms. Subject to completion of the transaction, the Company will bear the Investors' expenses with respect to the transaction subject to a ceiling of $15,000.
Closing Date	September 15, 2011

Series A Preferred Rights

Liquidation	Upon liquidation or winding up of the Company, the holders of Series A Preferred will be entitled to a return of the original purchase price plus all declared but unpaid dividends on Series A Preferred shares.
Conversion	The holders of Series A Preferred shall have the right to convert the Series A Preferred, at any time, into shares of Common. The initial conversion rate shall be 1:1, subject to the adjustment provided below.
Automatic Conversion	The Series A Preferred shall be automatically converted into Common, at the then applicable conversion price in the event that the holders of at least a majority of the outstanding Series A Preferred consent to such a conversion or upon the closing of an underwritten public offering of the Company at a price not less than $5.00 per share ("Qualified IPO").
Anti-Dilution	The Series A Preferred shall have broad-based weighted average anti-dilution protection in case of any new issuances of shares at a price below the Original Purchase Price. No adjustment will be made for the issuance of up to 1,000,000 shares of Common or options for Common to employees, directors or consultants pursuant to approved equity incentive plans.
Information Rights	So long as any Investor of the Series A Preferred holds 250,000 or more shares, the Company will deliver to each Investor annual and quarterly financial statements; annual business plan and budget, and other information reasonably requested by an Investor. Each Investor shall also be entitled to standard inspection and visitation rights.

Pre-Emptive Right	Until the completion of a Qualified IPO, the Series A Preferred Investors will have a pro rata right but not an obligation, based on their percentage equity ownership of Series A Preferred, assuming full conversion and exercise of options and other outstanding convertible and exercisable securities, to participate in subsequent issuances of shares of convertible securities and other rights to purchase or subscribe for shares by the Company (subject to customary exclusions).
Protective Provisions	Approval of the Series A Preferred majority shall be required in respect of various matters including: i) A sale of the company or any other liquidation event ii) Any amendment to the company's Certificate of Incorporation or Bylaws so as to alter or change the powers, preferences or special rights of the shares of Preferred Stock iii) Any increase or decrease (other than by conversion) in the total number of authorized shares of Preferred Stock or Common Stock

Series A Preferred and Common Rights

Voting Rights	The Series A Preferred will vote together with the holders of Common on an as-if converted basis on all matters presented to the stockholders. In addition to any other required vote, the Series A Preferred will be entitled to vote as a separate series as described under "Protective Provisions" above.
Drag-along	In the event that a two-thirds vote from Series A Preferred Investors and a two-thirds vote from Common accepts an offer to sell their shares to a third party, there will be drag along rights so that all remaining shareholders and option holders will be required to sell on the same terms, provided that the dragged shareholders will not be required to provide to the purchaser any representations or warranties except as to title or to agree to any other terms.
Tag-along	All Shareholders will have tag-along rights such that if any Founder or Investor has an opportunity to sell shares exceeding 15% of the issued share capital, the other shareholders must be given the opportunity to sell a pro rata proportion of the number of shares being sold by the Founder or Investor on the same terms and at the same price.