
OptiGuard, Inc.: Series A-Round Term Sheet

In November 2015, Richard Mannix, CEO of OptiGuard, Inc., was in the process of seeking additional financing for his young cybersecurity company. Up to this point, Mannix had been unsuccessful in attracting venture-capital (VC) funding, and had only been able to raise \$315,000 in seed capital from angel investors to develop the firm's first security-software applications. During the summer of 2015, with funds growing short, he began to search again for additional VC funding. In September 2015, he secured a bridge loan of \$350,000 from Woodland Venture Partners (WVP), a Boston-based VC firm, which gave the firm some breathing room until a Series A-round financing could be completed. The bridge loan was straight debt, and repayment was contingent upon the completion of a Series A round. In November, Mannix was finally able to secure an offer from WVP for \$5.0 million in convertible preferred stock. While Mannix welcomed the offer, he was uncertain whether the terms of the proposed agreement and the amount offered met his company's growing needs. With only \$5.0 million coming from the Series A round, OptiGuard would likely need additional funds within two years. Further, WVP's experience had primarily been in funding health care-oriented start-ups, and it had less experience in technology-based investments. Mannix needed to resolve two issues before he could make a decision on WVP's offer: whether \$5.0 million was enough for more than 40% of the firm's equity, and how the proposed contract terms would play out in the likely event of subsequent funding.

Company

Upon graduation from business school in 2004, Mannix went to work for Cisco, Inc., a large technology firm in enterprise services and networking systems. During his first years at the firm, Mannix worked in software engineering and increasingly found himself working on network security. In 2011, he met Carl Bolencamp, a security-products expert and cryptographer who helped create the first secure mobile devices for Blackberry and Motorola. Bolencamp was interested in securing the next frontier in information security: the last two feet of the network from the screen to the user's eye. Together Mannix and Bolencamp began discussing the idea for a company that would focus on protective technologies for mobile devices, such as cell phones, tablets, and laptops. With the growing interest in cybersecurity, Mannix decided to leave Cisco to start his own company and, in 2013, he returned to his hometown of Baltimore, Maryland, and opened OptiGuard.

The world's global mobile workforce was expected to reach 1.3 billion workers by 2015.¹ Many of these employees worked in shared or public spaces, where they frequently accessed or shared confidential information over mobile devices. OptiGuard's products protected sensitive information from being observed on mobile device screens. The volume of data exposed in an observation attack was typically less than that of a network

¹ Reuters, "Mobile Worker Population to Reach 1.3 Billion by 2015, According to IDC," January 5, 2012, <http://www.reuters.com/article/idUS110976+05-Jan-2012+BW20120105> (accessed Jun. 6, 2017).

This public-sourced case was prepared by Susan Chaplinsky, Tipton R. Snavely Professor of Business Administration. Some case elements have been disguised to protect confidentiality. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright © 2017 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. *To order copies, send an e-mail to sales@dardenbusinesspublishing.com. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation.* Our goal is to publish materials of the highest quality, so please submit any errata to editorial@dardenbusinesspublishing.com.

attack, but the total risk was serious because of the large number of exposed device displays. Studies found that observation threats could have large financial repercussions to businesses. An in-depth study of data breaches by insiders across a wide variety of organizations found that 42% of the incidents involved unsophisticated methods of access, such as the simple observation of unprotected computer screens.² In these cases, the unauthorized collection of information ultimately led to serious financial losses, with an average cost of \$400,000 per incident. The information most likely to be disclosed was corporate intellectual property, financial data, credit card information, and Social Security numbers. If the displays had been properly protected, a significant percentage of these losses could have been prevented.

OptiGuard believed there was a large market opportunity for data-security and compliance software products that could protect mobile device screens against data leakage while enabling employees to work normally. Beyond the increasingly mobile nature of the workplace, its business proposition centered on the decreasing confidence organizations had in the protection afforded by passwords, and on the growth in alternative forms of authentication using biometrics. In addition, firms reported a desire for systemwide security applications that continuously monitored online activity and could provide an audit trail for follow-up forensics. Since, however, the company's products provided protection beyond network security protection, OptiGuard had to produce a cost-effective targeted solution to address the eavesdropping threat.

OptiGuard's system of protection included three key features: device security, eavesdropping detection, and intruder guard.

Device security prevented the unauthorized display of information. Whenever an authorized user looked away or walked away from the device, the system automatically protected the display by blurring the display on a device. It looked for potential visual eavesdroppers nearby and warned the user or automatically protected the display when an unrecognized user was detected. Authorized users were automatically recognized by their faces. Anyone attempting to observe or break into an unattended workstation would have their picture taken and recorded on an audit log. For enterprises needing to comply with regulations (e.g., health care providers under the Health Insurance Portability and Accountability Act), the audit trail allowed firms to prove that data on displays were continuously protected against unauthorized disclosure. When the user returned to the screen, the system automatically cleared the protective screen without interrupting the normal workflow. Users did not need to remember to lock the computer, and they were not inconvenienced by repeated lockouts and the need to reenter password information.

Eavesdropping detection let an authorized user know when someone was trying to look at the screen. OptiGuard continuously scanned the screen around and behind the user to identify additional faces that were pointed at the user's display. When a second face was detected looking at the display, OptiGuard alerted the user by displaying a small video window in the upper corner that showed the detected eavesdropper's face. This warning immediately alerted the user to an observational threat.

Intruder guard allowed an authorized user to detect someone attempting to gain authorization to a device while the user was away from the screen. It captured a facial image of anyone trying to log on to the system and logged it into the system so that there was a record of attempted breaches.

The company's products ensured that authorized users could use their devices seamlessly, but prevented unauthorized access to the display. They also provided timestamped logs of all access, protection, and security events that could be saved for further follow-up.

² Eileen Kowalski, Dawn Cappelli, and Andrew Moore, "Insider Threat Study: Illicit Cyber Activity in the Information Technology and Telecommunications Sector," Software Engineering Institute at Carnegie Mellon University, January 2008.

The company believed its products were superior to the existing products used to prevent unauthorized access to information on screen displays. Two alternative approaches were plastic privacy shields and facial-recognition software. Plastic privacy shields did not alert the user if someone was eavesdropping, nor did they have a data-capturing capacity that would allow the firm to monitor and log security events. Further, the screens often distorted or darkened the display, which led the user to remove the shield, thereby removing the protection. Facial-recognition software provided good access control and lessened the need for screensavers, but it could not prevent unauthorized users from looking at the screen display. It also did not detect, report, or protect against eavesdropping or have a data-capturing capacity.

The company's first products were designed to protect mobile devices that used the Android operating system. Mobile security was a nascent area of security protection. To date, mobile threat-management systems included anti-malware, antispam, intrusion prevention, and firewalls for mobile devices. Mobile security- and vulnerability-management solutions were used to set, monitor, and update device configurations and perform device wipes and device lock-down when a device was lost or stolen. OptiGuard was not aware of any competing software applications that prevented observational threats from screen displays.

Industry Overview

Cybersecurity included a group of technologies, processes, and practices designed to protect networks, computers, programs, and data from attack, damage, or unauthorized access. The security marketplace was highly fragmented into verticals that addressed particular aspects of the problem (**Exhibit 1**). Enterprises complained frequently of “vendor sprawl” in trying to address the growing and evolving nature of vulnerabilities. Although organizations recognized that there was no “silver bullet,” increasingly they looked for vendors that could protect against a greater range of security threats and that allowed for better integration across their security products. The trend toward bundled or platform-based security products gave advantages to incumbents in the field such as Cisco, Check Point, Palo Alto Networks, and Symantec.

The marketplace for cybersecurity products was large and growing. International Data Corporation (IDC) estimated that total global revenues for security products and services would total \$55 billion in 2015 and grow to \$70 billion by 2019 (**Exhibit 2**). Because of the data-collection and compliance aspects of its products, OptiGuard's products fell within security and vulnerability management, one of the fastest-growing areas within cybersecurity.

Exhibit 3 shows the expected budgets for security products and services by firm size. Although in the near term, information technology (IT) budgets were expected to be relatively stagnant, increased spending was expected by 2016. The traditional approach firms took in allocating their IT budgets was to focus resources on the most critical system components and serious known threats, which necessitated leaving some less-important systems undefended and some less-dangerous risks unaccounted for. The challenge OptiGuard faced was convincing firms that the threat posed by eavesdropping was serious enough to warrant IT professionals allocating some of their stretched budgets to this security risk.

The firm attempted to make its case by stressing the increasingly mobile and remote nature of computing. To date, organizations had primarily focused their mobile security efforts on establishing a password to unlock the device, anti-malware, and data encryption. OptiGuard also attempted to tap into the growing anxiety about password protection by using sophisticated facial recognition technologies to access to proprietary information. Biometric authentication was of increasing interest in the marketplace as weak passwords had resulted in large numbers of username or password combinations being made public. As a still-nascent technology, biometric authentication was not without its own security concerns. Biometric-authentication factors were permanent

and unchangeable and if stolen (e.g., fingerprint data from a compromised database), the biometric factors could never be replaced with a verifiably safe alternative.

Financing History

When Mannix began searching for funds in late 2013, he did not have much success with VC firms. Looking back at the experience, Mannix recalled: “I must have called 25 firms and they all said the same thing. The venture capitalists claimed that my management team had no entrepreneurial experience (see **Exhibit 4**). Some were also concerned about the large number of entrants into cybersecurity and the potentially small share of the IT wallet our technology might get. A few were more positive because we weren’t duplicating what others in the space were doing.”

After Mannix’s initial attempts to attract VC funding were unsuccessful, he focused his efforts on angel investors. In October 2014, OptiGuard completed a \$315,000 seed round, selling 140,000 shares of common stock at \$2.25 a share to a group of local investors. The seed round represented 7.8% of OptiGuard’s equity. See **Exhibit 5** for the pre-Series A capitalization table. In addition to some of his own funds and those of Bolencamp and others, the seed money was helpful in hiring some key employees and developing beta products for mobile devices.

Less than a year later, OptiGuard was beginning to run low on funds and Mannix was forced to search again for funding. The firm at this point had prototypes of its security applications for Android-based mobile devices in hand, but fell short of the “proof of concept” many venture capitalists looked for. Mannix was currently in negotiations with two large health care providers whose workforces used tablets to send and receive sensitive health care data in many out-of-office locations. If he could finalize those contracts in the next few months, it would be an important sign of market acceptance.

In September 2015, after reaching out to a number of VC firms, he finally received interest from WVP. Its first fund had a reasonable track record of success and its second fund of \$80 million and was actively seeking investments. So far, approximately 60% of its investments had a life-science focus and the remainder were in a diverse set of technologies. With funds growing short and negotiations still under way, WVP agreed to offer OptiGuard a \$350,000 bridge loan until the terms of the Series A round could be finalized. The bridge loan, however, came at a steep price—it required repayment of \$700,000 upon completion of a Series A round within six months.³

After a series of back-and-forths, in November 2015, WVP offered a term sheet for a Series A round to purchase \$5.0 million in convertible preferred stock at \$4.00 per share (**Exhibit 6**). It was assumed that in lieu of repayment, the entire bridge loan of \$700,000 would convert into Series A shares at \$4.00 a share. Although \$5.0 million was a considerable step up in funding, Mannix was concerned about the adequacy of the funding in light of his firm’s current high-resource demands. Mannix described OptiGuard’s use of cash at the time:

For the most part, the money was spent on operating expenses. We were burning through about \$100,000 a month just to make payroll and pay the rent. Add in product-development costs, legal fees, and technology-related expenses, and you’ve got a burn rate approaching \$200,000 a month.

³ Bridge loans were a form of financing known as “convertible debt,” or loans that were initially debt that later converted into equity at the time of the next financing. If no financing materialized, the loan would not convert, but would still be senior to equity in the case of a sale or bankruptcy. Because the investment was in the form of debt, a valuation was not placed on the firm when it was used. Typically, bridge loans were not extended unless the venture capitalist was reasonably confident that a Series A round would be completed. In most cases, the investor was awarded extra compensation for providing the interim financing. The compensation could take the form of a discount (i.e., the loan converted at a discount to the new money raised in the round) or an investor could receive warrants with the right to purchase additional shares at a predetermined price.

Market Conditions

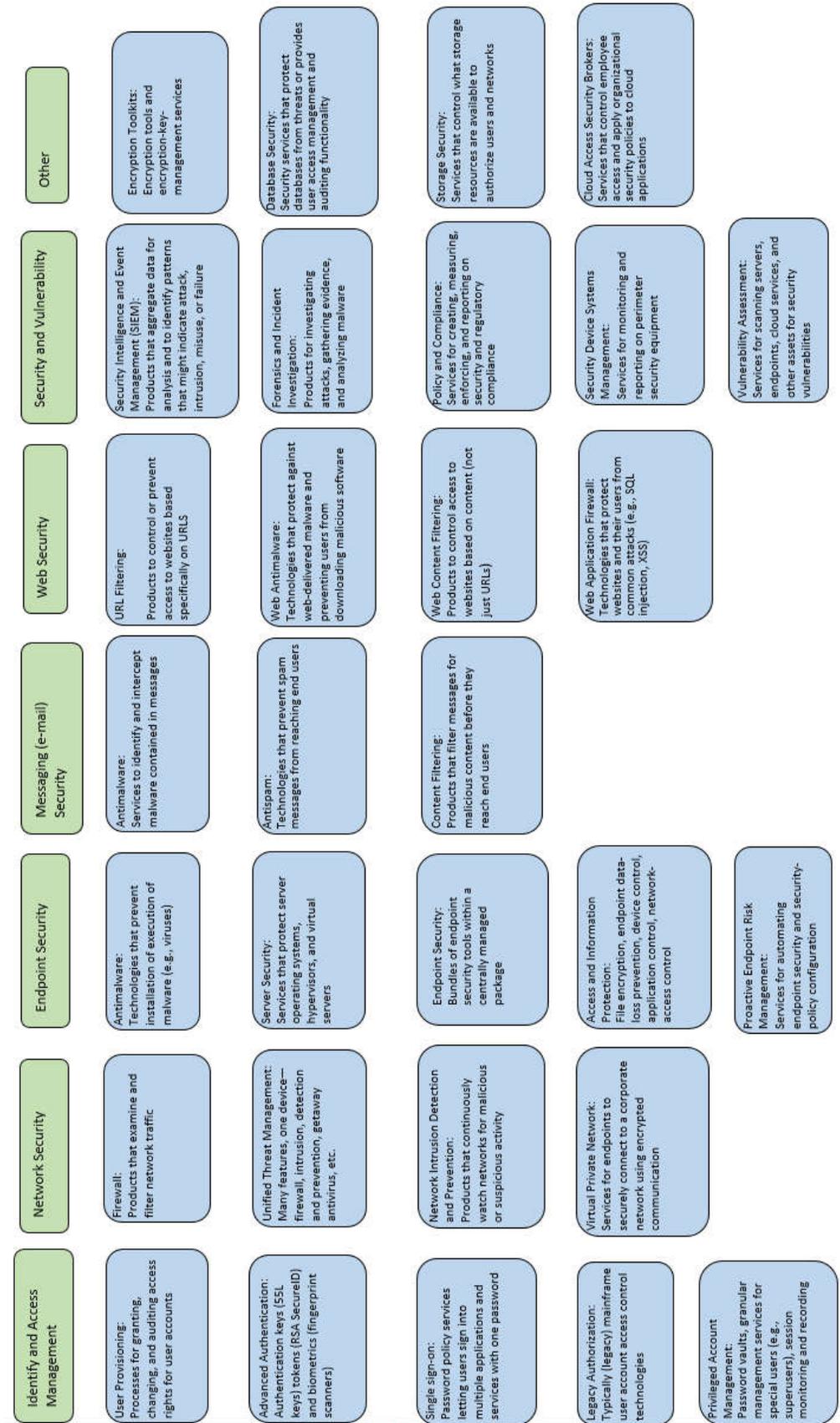
With the growing concern over the number and cost of data breaches, venture capitalists had invested heavily in security protection technologies. Reflecting the strong interest and large number of entrants into the field, the number of first-round or Series A investments in cybersecurity had grown from 42 in 2010 to 161 in 2015 (**Exhibit 7**). Over the same period, the capital invested in the sector had grown from \$163.7 million to \$652.4 million, a fourfold increase. As a result of this increased flow of funds, the median postmoney valuations of Series A rounds had grown from \$6.4 million in 2010 to \$17.8 million in 2015. At the same time, investors were also able to achieve some high-profile exits from their investments in cybersecurity. In 2015, there had been over 50 exits by M&As of VC-backed companies in cybersecurity. Over the past few years, there had also been a handful of IPOs, with several more anticipated next year. **Exhibit 8** shows the characteristics of selected M&A and IPO exits. Mannix hoped venture capitalists would view the potential of such an exit for OptiGuard favorably.

The Decision

Although OptiGuard was close to landing several key customers, as of November 2015, it had only enough cash on hand to last several months. WVP's offer had the advantage of immediate availability, but the valuation for the company seemed low in relation to other early-round investments. If Mannix brought in an investor other than WVP, OptiGuard would be forced to find additional financing before March 2016 in order to meet the commitments under the bridge loan.⁴ If Mannix went ahead with WVP's offer of \$5.0 million for the Series A round, in all likelihood, OptiGuard would need additional funding in roughly two years. With this in mind, Mannix would examine the details of the Series A term sheet carefully in order to understand the potential dilutive effects of future financing on his and other employee's incentives to see their efforts were adequately rewarded. He also wanted to be sure that the terms afforded him sufficient say in the future direction of the firm. The key terms he planned to focus on were the payment of dividends, the liquidation preference, antidilution, board representation, vesting provisions, option grants, and redemption. Not being a lawyer, he did not relish the task ahead.

⁴ That is, the company would forgo its option under the proposed terms of the Series A to convert the bridge loan, and would instead remain subject to the \$700,000 repayment provision of the loan.

Exhibit 1
OptiGuard, Inc.: Series A-Round Term Sheet
 The Security Market Map



Data source: Macquarie Group, "The Security Software Handbook," July 7, 2016.

Exhibit 2

OptiGuard, Inc.: Series A-Round Term Sheet

IDC Total Worldwide Forecast for IT Security Products and Services Revenue (in millions of dollars)

IDC Forecast for Worldwide IT Security Products Revenue by Segment							CAGR
	2015	2016	2017	2018	2019	2014-19	
Endpoint security	\$9,174	\$9,579	\$10,012	\$10,458	\$10,912		3.9%
Identity and access management	5,470	5,925	6,413	6,907	7,430		8.0%
Security and vulnerability management	5,392	6,039	6,680	7,320	7,935		10.9%
Messaging security	2,018	2,043	2,078	2,114	2,156		0.8%
Network security	10,445	11,400	12,342	13,276	14,230		9.0%
Web security	1,992	2,099	2,219	2,345	2,474		5.3%
Other security	758	776	801	826	833		1.5%
Subtotal	\$35,249	\$37,861	\$40,545	\$43,246	\$45,970		6.9%
IDC Forecast for Worldwide Professional Security Services by Activity							
IT consulting	\$6,910	\$7,341	\$7,812	\$8,328	\$8,898		6.4%
Systems integration	12,470	13,018	13,608	14,216	14,842		4.5%
Subtotal	19,380	20,359	21,420	22,544	23,740		5.2%
Total	\$54,629	\$58,220	\$61,965	\$65,790	\$69,710		6.3%
Growth % YoY		6.6%	6.4%	6.2%	6.0%		

Data source: Elizabeth Corr, Robert Ayoub, Christian A. Christiansen, and Robert Westervelt, "Worldwide IT Security Products Forecast 2015-2019," #US40709015, IDC Research, Inc., December 2015; Macquarie Group, "The Security Software Handbook," July 7, 2016.

Exhibit 3

OptiGuard, Inc.: Series A-Round Term Sheet

IT Budgets Allocated to Security

IT Budget Allocated to Security by Firm Size			
Business Size	2014	2015	2016
Large Firms (> 5,000 employees)	\$1 million to \$10 million	\$1 million to \$10 million	\$10 million to \$50 million
Medium Firms (500 to 5,000 employees)	\$0.5 million to \$1.0 million	\$1.0 million	\$1.0 million to \$10 million
Small Firms (< 500 employees)	\$0.1 million to \$0.5 million	\$0.1 million to \$0.5 million	\$0.1 million to \$0.5 million
Proportion of IT Budget Allocated to Security by Firm Size			
Business Size	2014	2015	2016
Large Firms (> 5,000 employees)	4% to 6%	4% to 6%	7% to 9%
Medium Firms (500 to 5,000 employees)	4% to 6%	4% to 6%	7% to 9%
Small Firms (< 500 employees)	3% to 4%	4% to 6%	6% to 7%

Data source: SANS Institute, February 2016, as reported in Macquarie Group, "The Security Software Handbook," July 7, 2016.

Exhibit 4

OptiGuard, Inc.: Series A-Round Term Sheet

Management Biographies

Richard Mannix, President

Richard Mannix is the president and cofounder of OptiGuard. Mannix was previously senior vice president of networking security at Cisco, Inc. He has over 10 years of experience in software engineering, software management, and mobile security. While at Cisco, Mannix specialized in evaluating existing technologies, leading teams on the creation of new products, and in-house or cross-company product development. He is a board member and treasurer of the Technology Development Corporation of Maryland (TEDCO). Mannix graduated with a BS in electrical engineering with merit from the University of Virginia and received his MBA from the Darden Graduate School of Business at the University of Virginia.

Timothy Geren, National Sales Director

Timothy Geren serves as national sales director and manages OptiGuard's sales and marketing initiatives. Following sales and marketing roles at Lockheed Martin Corporation, Geren led efforts at Lockheed on numerous high-profile programs to provide big-data solutions for bioterrorism, medical emergency response and preparedness, and disaster relief, and worked with the intelligence community at state and local levels. Geren brings to OptiGuard experience in federal, commercial, international, and original equipment manufacturing (OEM) sales as well as a strong technical and marketing background. Geren holds a BS from Tufts University, and an MEng in computer and systems engineering from Rensselaer Polytechnic University.

Carl Bolencamp, Chief Technology Officer

Carl Bolencamp is the chief technology officer and cofounder of OptiGuard. He is a security-product expert and cryptographer who helped create the first wave of secure mobile devices for Blackberry, Palm, and Motorola. He previously served as vice president of encryption products at ForceNet, a global information-security leader. He is a sought-out expert in encryption and mobile security and has received numerous industry awards. Bolencamp has 22 years of experience in the computer industry, including computer operations, systems programming, systems engineering, cryptography, and network security. He received his MS and PhD in computer science from the Georgia Institute of Technology.

Data source: Company information.

Exhibit 5

OptiGuard, Inc.: Series A-Round Term Sheet
Capitalization Table

Units in thousands	Pre-Series A Capitalization				
Investors	Common Shares	Granted Options ¹	Fully Diluted Shares	Percentages held of:	
				Common	Fully Diluted
Richard Mannix	1,000.0	100.0	1,100.0	61.0%	61.1%
Carl Bolencamp	400.0	40.0	440.0	24.4%	24.4%
Seed Investors	140.0		140.0	8.5%	7.8%
Other Investors	100.0	20.0	120.0	6.1%	6.7%
Total Shares and Options	1,640.0	160.0	1,800.0	100.0%	100.0%

¹ Does not include 248,000 options not yet granted.

Source: Author estimates.

Exhibit 6

OptiGuard, Inc.: Series A-Round Term Sheet

Term Sheet

TERM SHEET FOR POTENTIAL INVESTMENT IN
OPTIGUARD, INC.Confidential

This term sheet summarizes the principal terms with respect to a potential private placement of equity securities of OptiGuard, Inc. (the “Company”), by a group of investors led by Woodland Venture Partners. This term sheet is intended solely as a basis for further discussion and is not intended to be and does not constitute a legally binding obligation. No other legally binding obligations will be created, implied, or inferred until a document in final form entitled “Stock Purchase Agreement,” is executed and delivered by all parties. Without limiting the generality of the foregoing, it is the parties intent that, until that event, no agreement shall exist among them and there shall be no obligations whatsoever based on such things as parol evidence, extended negotiations, “handshakes,” oral understandings, or courses of conduct (including reliance and changes of position). The Company and the investors are discussing a private placement of shares of Preferred Stock on the following terms:

Amount of Investment: \$5.0 million

Type of Security: Shares of the Company’s Series A Preferred Stock (“Preferred”), convertible into shares of the Company’s Common Stock (“Common”).

Price Per Share: \$4.00 (the “Original Purchase Price”).

Rights, Preferences, Privileges & Restrictions of Preferred Stock:

- (1) **Dividend Provisions:** The holders of the Preferred will not be entitled to receive dividends except in the sole discretion of the Board whenever funds are legally available and when, as and if declared by the Board.
- (2) **Liquidation Preference:** In the event of any liquidation, dissolution, or winding up of the Company, the holders of Preferred will be entitled to receive in preference to the holders of Common an amount (the “Liquidation Preference”) equal to the Original Purchase Price plus any declared and unpaid dividends. After the payment of the Liquidation Preference to the holders of Preferred, the remaining assets shall be distributed ratably to the holders of Common and Preferred (on an as-if-converted basis).
- (3) **Conversion:** A holder of Preferred will have the right to convert Preferred, at the option of the holder, at any time, into shares of Common. The total number of shares of Common into which Preferred may be converted initially will be determined by dividing the Original Purchase Price by the conversion price. The initial conversion price will be the Original Purchase Price. The conversion price will be adjusted to reflect stock dividends, stock splits, and similar events and as provided in paragraph (5) below.

Exhibit 6 (continued)

Term Sheet

- (4) Automatic Conversion: In the event of: (i) a firm commitment underwritten public offering of shares of the Company at a total offer of not less than \$25 million; or (ii) the consent of the holders of at least a majority of the then outstanding shares of Preferred, the Preferred will automatically convert into Common, at the then-applicable conversion price.
- (5) Antidilution Provisions: The conversion price of the Preferred will be subject to adjustment, (i) for stock dividends, stock splits, or similar events, and (ii) to prevent dilution in the event that the Company issues additional shares at a purchase price less than the applicable conversion price. No adjustment to the conversion price will occur for any issuance of additional shares at a purchase price in excess of the current conversion price. The Preferred Shares shall have a weighted average antidilution protection in relation to any additional issue of shares. Conversion prices will not be adjusted because of (a) conversion of Preferred or (b) the issuance and sale of, or the grant of options to purchase, up to 248,000 shares of Common pursuant to the Company's employee stock purchase or option plans.
- (6) Voting Rights: Except with respect to election of directors, a holder of Preferred will have the right to that number of votes equal to the number of shares of Common issuable upon conversion of its Preferred at the time the shares are voted. Election of directors will be as described under "Board Representation" below.
- (7) Protective Provisions: The Preferred shall vote on an as-converted basis, but also has a class vote as provided by law. The consent of the holders of at least a majority of the outstanding Preferred, voting as a single class, will be required for any action that would: (i) amend or repeal any provision of, or add any provision to, the Company's Articles of Incorporation (the "Articles") or Bylaws to change the rights of the Preferred, or increase or decrease the number of authorized shares of the Preferred; (ii) create any new series or class or shares having a preference or priority as to dividends or assets superior to or on a parity with that of the Preferred; (iii) create any bonds, notes, or other obligations convertible into, exchangeable for, or having option rights to purchase shares of stock with any preference or priority as to dividends or assets superior to or on a parity with that of the Preferred; (iv) reclassify any class or series of Common into shares with a preference or priority as to dividends or assets superior to or on a parity with that of the Preferred; (v) apply any of its assets to the redemption or acquisition of any shares of Common, except from employees, advisers, officers, directors, consultants, and service providers of the Company on terms approved by the Board; (vi) agree to a merger, sale, or consolidation of the Company with another entity or the effectuation of any transaction or series of related transactions in which more than 50% of the voting power of the Company is disposed; or (vii) other protective provisions to be set forth in the Articles.

Exhibit 6 (continued)

Term Sheet

<i>Redemption:</i>	At the election of the holders of a majority of the Preferred, the Company shall redeem the Preferred in three (3) equal annual installments commencing six (6) years from the date of purchase by paying in cash an amount equal to the Original Purchase Price plus any declared but unpaid dividends. To the extent that the Company may not at any such date legally redeem such Preferred, such redemption will take place as soon as legally permitted.
<i>Information Rights:</i>	The investors shall receive standard information rights including annual audited and quarterly unaudited financial statements. The investors shall receive standard inspection and visitation rights.
<i>Board Representation:</i>	The authorized number of directors of the Company will be seven (7). So long as 25% or more of the Preferred issued in this financing remain outstanding, the Preferred (voting as a class) will elect three (3) directors and the Common (voting as a class) will elect four (4) directors. If at any time, less than 25% of the Preferred remains outstanding, all of the directors will be elected by the Common.
<i>Events of Noncompliance and Remedies:</i>	<p>(1) <u>Events of Noncompliance.</u> An Event of Noncompliance will be deemed to have occurred if:</p> <ul style="list-style-type: none"> (a) The Company fails to make any redemption payment it is obligated to make, breaches any of the covenants, or fails to comply with the provisions of the agreements contemplated by this transaction for the benefit of the investors, or fails to comply with other provisions in the Articles applicable to the Preferred, which breach or failure remains uncured for ten (10) business days following written notice to the Company or is incapable of being cured. (b) The Company's representations and warranties are untrue in any material respect as of the closing. (c) The Company incurs bankruptcy, receivership, acceleration of third-party obligations, assignment for benefit of creditors, or unsatisfied judgment. <p>(2) <u>Remedies for Events of Noncompliance.</u></p> <ul style="list-style-type: none"> (a) Upon the occurrence of the Event of Noncompliance, holders of a majority of the Preferred may demand immediate redemption of all or any part of their Preferred, in which event all holders thereof shall be entitled to receive written notice thereof and to demand immediate redemption of all or any part of their Preferred. (b) Upon the occurrence of an Event of Noncompliance, holders of Preferred shall have the right to elect a majority of the members of the Board. This right will cease as of the regularly scheduled annual stockholders meeting which follows cessation of the Event of Noncompliance. (c) The foregoing remedies are not exclusive, and other available legal remedies may be pursued, including, without limitation, actions for damages, specific performance, or injunctive relief (without the necessity of posting a bond or other security).

Exhibit 6 (continued)

Term Sheet

<i>Use of Proceeds:</i>	The proceeds from the sale of the Preferred will be used for working capital.
<i>Stock Restriction and Vesting:</i>	The founders of the Company and all other holders of Common who are employees of, or consultants to, the Company will execute a Stock Restriction and Vesting Agreement with the Company pursuant to which the Company will have a repurchase option to buy back at cost a portion of the shares of Common held by such person in the event that such shareholder's employment with, or consulting to, the Company is terminated prior to the expiration of 36 months from the date of the purchase of the Preferred or date of first employment or consulting, whichever is later (the "Starting Date"). A portion of the shares will be released from the repurchase option based upon continued employment by the Company as follows: 1/36th will be released from the repurchase option at the end of each month from the Starting Date. In addition, the Company will have a right of first refusal with respect to any employee's or consultant's shares proposed to be resold, terminable upon completion of a public offering by the Company.
<i>Reserved Employee Shares:</i>	The Company may reserve up to 248,000 shares of Common (the "Reserved Employee Shares") for issuance to employees, officers, and consultants. The Reserved Employee Shares will be issued from time to time under such arrangements, contracts, or plans as are approved by the board of directors. Holders of Reserved Employee Shares will be required to execute Stock Restriction and Vesting Agreements as described above.
<i>Right of First Refusal:</i>	In the event that the Company offers equity securities (other than Reserved Employee Shares, or upon conversion of outstanding Preferred, or upon exercise of outstanding options or warrants, or in connection with an acquisition or in a public offering), each investor who holds at least 20,000 shares (as adjusted) of the Preferred issued in this private placement shall have a right of first refusal to purchase a pro rata percentage of shares in the new offering, based on the holder's percentage ownership interest in the Company. This right will terminate upon a Qualified IPO.
<i>Confidential Information, Non-solicitation, Inventions Assignment:</i>	Each officer, director, and key employee of the Company will enter into a Confidential Information, Nonsolicitation, and Inventions Assignment Agreement in a form reasonably acceptable to the Company and the investors.
<i>The Stock Purchase Agreement:</i>	The purchase of the Preferred, if consummated, will be made pursuant to a Stock Purchase Agreement drafted by counsel to the investors and acceptable to the Company and the investors. The Stock Purchase Agreement will contain, among other things, representations and warranties of the Company, covenants of the Company, and conditions to the obligations of the investors.

Exhibit 6 (continued)

Term Sheet

Conditions of Closing: The closing for the purchase of the Preferred will be conditioned upon:

- (a) Completion of due diligence to the satisfaction of the investors in their sole discretion.
- (b) Execution by the Company of the Stock Purchase Agreement and related agreements satisfactory to the investors in their sole discretion.
- (c) Compliance by the Company with applicable securities laws.
- (d) Opinion of counsel to the Company rendered to the investors in form and substance satisfactory to the investors.
- (e) Key-person life insurance having been obtained for the benefit of the Company on Richard Mannix and Carl Bolencamp for \$1 million of this type.

Expenses: Each party will pay its own fees and expenses incurred in connection with this transaction.

Closing: The closing of the transaction, if all conditions are met, is expected to occur on or before January 15, 2016.

Source: Author information.

Exhibit 7

OptiGuard, Inc.: Series A-Round Term Sheet

Series A–Round Investments by Angel and Venture Capital Investors in Cybersecurity Firms

Year	Deal Count	Total	Capital	Capital	Premoney	Post-Money
		Capital Invested	Invested Mean	Invested Median	Valuation Median	Valuation Median
(\$ in millions)						
2015	161	\$652.4	\$4.83	\$3.00	\$11.67	\$17.83
2014	167	606.3	4.12	2.50	8.89	12.13
2013	115	337.4	3.51	1.45	9.98	12.46
2012	81	346.8	4.82	2.00	10.30	15.36
2011	65	243.1	4.34	1.54	4.37	7.68
2010	42	163.7	4.68	1.30	3.58	6.40
2009	32	105.2	4.05	2.85	6.18	9.39
2008	26	74.7	3.73	2.13	3.64	7.24
2007	17	49.0	3.77	1.90	9.83	13.43
2006	20	89.2	4.95	3.33	10.47	13.34
Total	726	\$2,667.6	\$4.28	\$2.20	\$7.89	\$11.52

Data source: Pitchbook, Inc., database.

Exhibit 8

OptiGuard, Inc.: Series A-Round Term Sheet

Exits from Venture-Backed Companies in Cybersecurity

Exit Date	Company Name	Employees	Year Founded	First Financing Date	First Venture-Capital-Round Amount (\$ millions)	Total VC Amount Raised (\$ million)	Final Valuation (\$ millions)	TVPI
Mergers/Acquisitions								
11/02/15	Good Technology	1,142	1996	10/01/96	\$1.10	\$577.96	\$425.00	0.74x
11/02/15	Bloxx	55	1999	02/07/12	0.87	2.09	18.70	8.95x
10/15/15	Viewfinity	51	2007	01/11/08	5.00	33.92	30.50	0.90x
10/13/15	Intronis	129	2007	10/10/07	5.00	21.98	65.00	2.96x
08/27/15	OpenDNS	201	2005	11/01/05	2.50	53.27	635.00	11.92x
07/09/15	Caspida	35	2014	04/15/14	9.72	9.72	190.00	19.55x
06/26/15	White Sky	25	2005	02/21/06	1.37	28.09	0.73	0.03x
05/27/15	ShieldArc	11	2013	02/14/14	2.00	2.00	18.00	9.00x
02/20/15	Airpost	2	2012	04/01/13	0.21	0.21	0.75	3.57x
01/13/15	Intellinx	100	2005	10/25/06	4.00	4.00	84.90	21.23x
01/12/15	Neohapsis	57	1997	02/07/06	5.20	53.16	35.00	0.66x
01/02/15	Tripwire	450	1997	06/10/99	4.43	31.02	710.00	22.89x
IPOs								
07/16/15	Rapid7 (RPD)	756	2000	09/17/08	\$7.00	\$92.27	\$604.56	6.55x
06/12/14	MobileIron (MOBL)	843	2007	03/31/08	9.30	157.21	671.84	4.27x
03/21/14	A10 Networks (ATEN)	722	2004	01/01/05	6.69	118.63	885.44	7.46x
01/29/14	NetPosa Technologies (300367)	1,177	2000	11/02/10	4.73	4.73	11.47	2.42x
09/20/13	FireEye (FEYE)	3,000	2004	01/01/05	6.45	105.67	2,349.42	22.23x

The exits shown are restricted to companies with complete data for first VC round amount, total VC amount raised, and estimated or actual final valuation. TVPI is the investment multiple or the final valuation divided by total VC amount raised.

Data source: Pitchbook, Inc., database.