

From: Hosain Rahman <[REDACTED]>
To: "jeffrey E." <jeevacation@gmail.com>
Subject: Re: Jawbone Opportunity
Date: Mon, 31 Aug 2015 20:20:20 +0000

Any further thoughts on this?

On Aug 30, 2015, at 2:54 PM, Hosain Rahman <[REDACTED]> wrote:

We are pretty close on the \$35M. We have \$24M signed/committed/wired and we are in deep diligence with another \$21M expecting answers back shortly.

We deal with Daniel Daniel at BlackRock. He's the tech PM for the Global Allocation fund.

On Aug 30, 2015, at 2:50 PM, jeffrey E. <jeevacation@gmail.com> wrote:

how much of the 35 is raised? who at blackrock is your contact?

On Sun, Aug 30, 2015 at 4:51 PM, Hosain Rahman <[REDACTED]> wrote:

I understand why you would think that about liquidation preferences and it makes sense generally. And we are working like crazy to harness the \$50B+ opportunity - the team, Board, BlackRock, JP Morgan all believe that type of outcome is absolutely possible so that liquidation preferences are irrelevant.

However, from a less optimistic perspective there are a range of outcomes in the \$1-2.5B range where the company is not in the toilet but hasn't realized it's potential. In this situation you would get the option on a very nice return if you participated in this instrument.

If you don't participate you would be sitting behind \$1B yes. If you do participate as of 4/28/16 you would only be sitting behind \$320M and you preserve all of your upside. That's why nearly every single one of our eligible investors have participated in this deal (Sequoia, JP Morgan, The high net worth individuals from JP Morgan who came in through an SPV, Mayfield, Khosla, even the Rizvi guys who screwed us are participating) and the ones who haven't are seriously thinking about it. For a relatively small amount of money you pull all of your investment up the liquidation stack up, lock up a nice return in so-so outcomes and preserve all of your upside.

Let me know if you want to get on the phone and talk about it more.

On Aug 30, 2015, at 1:07 PM, jeffrey E. <jeevacation@gmail.com> wrote:

if i am concerned about the liquidation preference it would mean the co is in the toilet. so why would i care about the amount as it sits behind a billion already

On Sun, Aug 30, 2015 at 3:58 PM, Hosain Rahman <[REDACTED]> wrote:

It means that for every dollar over the participation amount you receive nine dollars in liquidation preference.

On Aug 30, 2015, at 12:51 PM, jeffrey E. <jeevacation@gmail.com> wrote:

what do you mean increase my preference by 9 times , I dont follow

On Sun, Aug 30, 2015 at 1:37 PM, Hosain Rahman <[REDACTED]> wrote:
Jeffrey,

Nice to speak with you briefly. As promised, here's an update on the financing round and business:

Investment Opportunity for Mort (see attached):

For a \$1.25M investment you will elevate all your previous common and preferred to the most senior equity preference (after convertible note) with a 1.5x preference. You currently have \$5M in Series 5 preferred with ~\$1B in preference ahead of it and \$5M in common. **Closing is on Monday.**

Financing Round:

Although our latest major investment round was later than expected, we're pleased to have BlackRock as a partner. BlackRock invested \$220M in a convertible note in April and then added an additional \$50M to it paired with \$40M in Series 8 Preferred equity from JP Morgan and Sequoia. Now, BlackRock is obligated to invest an additional \$50M if we raise an additional \$35M in Series 8 Preferred by the end of August. We're offering it to Major Investors and it's structured to be a great way for holders of prior preferred to increase their preference coverage and seniority. Every investor we've spoken to has been pleasantly surprised by how advantageous the terms are: investors essentially get to increase their preference on 9x their money invested. More details on the transaction and potential for you are attached. I know Andrew Lindsay on my team has spoken to Richard Kahn about it a couple times.



Team:

We recently hired two exceptional business leaders to partner with me to run the business. With the addition of Sameer Samat and Jason Child we have one of the premier executive teams of any late-stage startup.

Sameer Samat joined in June as our President. He was previously a VP at Google leading their commerce business and a key lieutenant to Sundar Pichai, the new Google CEO. He's responsible for our entire product development organization including R&D, software, hardware and design. In the two months he's been here we've already instilled important discipline in our development process that will help us better launch products on time and on cost.

We also hired a new CFO. Jason Child joined last month from Groupon where he took them public as their CFO. Prior to that he was CFO of Amazon's international business. He's excited about helping us grow with the exploding wearables market while keeping gross margins and operating costs in line.

Sales and Partnerships:

Confidentially, we're in talks with several key partners to integrate our products into their offerings. We're deep in talks with Microsoft on combining UP into their Office productivity suite. It would be huge for corporate wellness. We're discussing powering watches with our sensors and software. Fossil is driving these conversations and eager to partner. They sells over 30M watches annually under brands such as Michael Kors and Tory Burch so we're seriously considering it.

Our recent sales have been a mixed bag. We have successfully narrowed our focus to wearables exclusively in 2014 but total sales were below expectations. Last year nearly 80% of our revenues were from UP bands and this year we expect it to be over 95%. Total sales in Q4 2014 and H1 2015 were hampered though by delayed funding and product launches. We didn't have the necessary marketing support when we launched the products and they suffered from low awareness. Despite this we forecast wearable sales to grow 43% from \$201M in 2014 to \$288M in 2015. We should be fully on track going into 2016 and expect to grow with the market and generate \$651M in revenues.

Market:

The wearables market is growing incredibly fast. Consumers are excited about the space and seeking new products. While we've ceded some of the market to Fitbit we're seeing that consumers are not brand loyal at this early stage. Best Buy recently surveyed their customers and found that half of them are interested in wearables and 92% of them are not loyal to any brand. It's reminiscent of the early stages of the smartphone market when Symbian had 50% of the share in 2009 and fell to 1% in 2012.

Products:

We launched three great new bands this year: UP2, UP3 and UP4. UP3 is the market's only band with bioimpedance sensors to get accurate heart rate and UP4 has all UP3's features with American Express payment functionality. UP2 has all the functionality of UP24 but at lower cost with better design. The products have remarkable technology but the clasp and the capacitive touch input mechanism disappointed some customers. We've worked quickly to resolve those issues and expect to continue to delight customers. We also have some beautiful new jewelry-like UP2 and UP3 designs coming out in a couple weeks. Channel partners have been raving about them and if you send me the best address to reach you at I'll send you one.

Development:

Our current products are exciting but the real magic is what we have on deck. We have the industry's best intellectual property and we're incorporating it into groundbreaking new products with features such as blood pressure, stress detection and respiration. We have even more advanced sensors in development. With our sensor development we're at the forefront of the convergence of health and consumer and the market opportunity for that is massive.

Let me know if you would like to discuss any of this further.

All my best,
Hosain

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