

From: Jeffrey Epstein <jeevacation@gmail.com>
To: David Stern <[REDACTED]>
Subject: Re: Proposed SC investment framework - for discussion
Date: Thu, 18 Apr 2013 12:23:18 +0000

thoughtful proposal , with a little tweaking not bad

On Thu, Apr 18, 2013 at 7:55 AM, David Stern <[REDACTED]> wrote:
Please let me know your views.
Thanks!

Begin forwarded message:

From: Ramesh Venkataraman <[REDACTED]>
Subject: Proposed SC investment framework - for discussion
Date: 13 April 2013 21:17:07 GMT+01:00
To: "[REDACTED]" <[REDACTED]>

David,
Hope your trip to China is going well. Apologies that it has taken me a week to follow up on our discussions. Have been swamped on a number of fronts including an unexpected (but hopefully positive) turn of events on Poseidon – will brief you on your return from China.

Here is a proposed framework that I have developed for your review/comment. Let me have your thoughts either via email or, if you prefer, we can wait until your return to discuss in person.

1. Subject to confirmatory diligence (expected to take no more than 2-3 weeks) and final documentation, SC will invest \$5 million in July 2013 or as soon as AG receives the first RMB 1 mn from Chengdu. As discussed, this \$5 million amount will be the only funding commitment from SC to AG (and this should be documented and minuted by AG for the avoidance of doubt/misconception). However, as discussed, we are fully committed to assisting you/AG in future rounds of capital raising from other investors including tapping the Samena network.
2. Our instrument will be structured as preference shares (zero coupon) convertible into common equity upon a liquidity event (IPO, trade sale, partial divestment).
3. Our instrument will presumably rank behind the Informa \$16 mn loan note from 2010 (payable in 2020 with a 10% roll up coupon) and only be payable after that loan note principal and accrued interest are paid out. We can refine our structure once we have access to the loan note docs and understand the draw down schedule and payment obligations.
4. The conversion ratio for our instrument into equity shares will be on the basis of a liquidity preference table as follows:
 - A. If a liquidity event happens before the next capital raising round or 18 months from the date of our investment (whichever is earlier): our instrument earns a fixed IRR of 50%. The idea here is to give you and the current management team disproportionate 'credit' for the liquidity event if it is achieved relatively quickly after we invest. To explain by way of an illustration, if AG is sold in 12 months at an Enterprise Value (EV) of, say, \$50 mn then the payment waterfall is as follows:
 - a. Informa - \$16 mn plus accrued interest, say, \$5mn = \$21 mn
 - b. SC - \$7.5 mn (50% IRR for 12 months on \$5 mn investment)
 - c. Balance \$21.5 mn to be split across the remaining common equity holders in proportion to their shareholding %
 - B. If a liquidity event happens after the next capital raising round or the 18 month anniversary of the date of the SC investment:

Exit EV 'waterfall'	Samena % of exit proceeds
\$m	%
0 to 100	50%
100 to 500	20%
500 plus	10%

The way to read this is as follows – 'if the EV at exit is \$50 mn, then Samena will get 50% of the amount over that owed to Informa. If the Informa loan note principal + accrued interest repayment obligation is \$24 mn, then Samena gets \$13 mn and the other common equity holders get \$13 mn. If the EV at exit is \$120 mn, then SC gets \$42 mn (50% of \$76 mn plus 20% of \$20 mn). If the exit is at a blockbuster EV of \$500M, SC gets \$118M and the other equity holders collectively get \$358 mn, with the balance \$24 mn of course being payable to Informa.'

5. Any new investor in a subsequent round (say in 2014) buys into the equity in a normal way, ie, the board sets a pre-money valuation for the equity etc. The SC prefs do not get diluted – ie, the conversion framework outlined above stays the same.
6. Other terms can be worked out, eg, negative covenants, board seats, IPO secondary offering rights, etc. It is also going to be critical to discuss how AG's burn rate can be reduced – ideally cut below \$700K p.m., so our investment plus the \$6M of cash that AG has currently can last at least 18 months just in case of the inevitable execution delays in Chengdu.

David, please treat this as a draft for discussion that we can refine over the next few days based on your feedback to arrive at a mutually acceptable framework.

Best
Ramesh

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