

<https://wharton.instructure.com/courses/1103506> Update: August 26, 2013

**University of Pennsylvania  
The Wharton School  
Management Department**

## **Venture Capital and Entrepreneurial Management**

**MGMT 804, Section 2, Q2 – Fall 2013  
JMHH 250, MW 9:00 am – 10:20 am  
MGMT 804, Section 4, Q2 – Fall 2013  
JMHH 250, MW 10:30 am – 11:50 am**

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### **Course Overview and Design**

This elective course focuses on venture capital and the typical venture-backed start-up company based on conventions and practices in the United States.

Venture capital and the technology sector that it supports<sup>1</sup> continue to evolve structurally. This evolution traces from the dot-com bubble of 1998-2000; the dramatic economic upheaval in 2008-2009; the explosive growth of companies with an Internet-based business model; the globalization of business in general; the expansive adoption of consumer-based technologies, products, and services; and other influential changes. Our class will cover traditional conventions in the industry that have historically shaped investor and company behaviors as well as the structural changes that we are witnessing now.

Among the many factors that are currently impacting the industry, we will discuss the following:

Venture capital funds typically have a ten-year life. The dot-com bubble of 1998-2000 that lifted financial performance and produced positive returns for so many venture firms has become a distant event and fallen off the horizon for return calculations. As a result, venture capital as an asset class is not performing at the traditional norms of fifteen to twenty percent ROI. Many funds today are showing negative returns to their limited partners. As a result, traditional LPs are engaged in a “flight to quality”; reinforcing the dominance of the established top-tier VC firms at the expense of lesser-known

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<sup>1</sup> For purposes of our class, the technology sector includes companies in a wide range of industries that look to venture capital as a principal financing resource. These industries include traditional technology companies (software, internet, semiconductor, electronic hardware, etc.), biotech companies (medical device, pharmaceutical, healthcare, etc.), clean and green tech companies (fuel cell, solar panel, wind, battery storage, conservation technologies, etc.), homeland security companies, and consumer companies.

*Course Syllabus*

firms. It is widely acknowledged that the VC industry is in a state of contraction with the inflow of new funds to VC firms diminishing and as the VC community consolidates. What effect will this have on innovation and growth in the technology sector?

The average investment horizon for a venture-backed startup to achieve an “exit” through an IPO has continued to exceed historical norms—over nine years on average in 2010, in contrast with an average horizon of a little over four years in 1999. Venture firms are therefore required to support the capital requirements of their portfolio companies over a longer period as these companies wait for an opportune exit and hence adversely affecting realized returns. Has venture capital as an asset class been permanently impaired?

The IPO market has traditionally been a mainspring addressing the liquidity and capital formation requirements of the technology sector. However, the last decade has witnessed a marked decline in the number of venture-backed technology IPOs— from an annual average of around 500 IPOs during 1990-1999 to fewer than 100 IPOs during 2000-2010, with a low of only six venture-backed IPOs in 2008. Following the economic meltdown in late 2008, the IPO market in 2008-2009 was the worst experienced in over 40 years. Should we expect that the IPO market will be restored to the level of significance that we witnessed during the 1990’s?

The angel community is exploding in terms of activity levels, number of individual angels/angel groups, and significance to the industry; in response to the dramatic increase in the number of consumer internet and social media startups; and other companies structured around an online business model. These companies require extremely modest amounts of capital—in some cases less than \$50,000—to demonstrate proof of concept, and their all-in equity capital requirements are significantly less than traditional “brick and mortar” companies. Individual angels, angel organizations, and now “superangels” have rushed into the breach with astounding success. However, is there a dark lining to this phenomenon? The traditional venture capital community is in a state of contraction and VC fundraising levels are at about half of their levels in 2007. As these angel-funded companies grow and begin looking for their first round of institutional capital, will the traditional venture capital community be there to take these companies to the next level of growth? If they have limited investment dollars to spend, as was the case in 2008, we should expect that current portfolio companies will take priority over new investments. If this marks the beginning of a trend, should we expect a massive “culling” of these online startups that cannot attract institutional capital? What might we expect from the M&A market in respect to companies unable to secure additional funding? How will it impact company valuation?

The emergence of private secondary market exchanges, through companies that include SharePost and SecondMarket, has offered an alternative to the traditional “exits” found in an IPO sale or merger. Investors and employees in private companies with substantial valuations such as Facebook, Groupon and Zynga (before their IPOs) have achieved limited liquidity through these exchanges. Compounding the availability of liquidity through these private exchanges is the growing belief of many CEOs and their investors that “going public” has become too complicated, too costly, and too aggravating. If the luster of the technology company IPO has dimmed, for whatever reason, what structural impact will this have on the VC industry that traditionally favored an exit through an IPO to capture the “valuation premium” that the public market favors? Absent a vibrant IPO market for startups, are the exit opportunities available through M&A alone compelling enough to draw LP interest in VC as an asset class over the long term?

The course will take all of these factors into consideration from the different and distinct perspectives of both the entrepreneur and the venture capital investor. I will also address management issues regarding the working relationship between the VC and the entrepreneur, corporate governance, and executive compensation.

*Course Syllabus*

The entrepreneur's perspective addresses the challenges in organizing and financing the venture. Examination of this perspective reveals how entrepreneurs gain an understanding of the context and mechanics of valuing the business. Together, these matters help define the financing requirements of the business and suggest the approach for where and how to raise capital, and thereafter manage the relationship with investors.

Complementing, and sometimes in opposition to the entrepreneur's outlook, is the venture capitalist's perspective, which explores issues of concern to investors in evaluating, structuring, and pricing venture capital investments. Insights gained from these class discussions will be valuable for students considering a career in venture capital, while also providing essential information for entrepreneurs. As we explore the venture capitalist's perspective, I will address several aspects of the investment process including the term sheet content and structure, term sheet negotiation, valuation methods, and the impact of successive rounds of financing on capitalization and ownership. All of these factors set the stage for the relationship between management and investors as well as the governance of the company.

The course is pragmatic in its orientation. I will attempt to expose students to both perspectives simultaneously. It will cover seven principal areas relevant to the privately held, high-growth-potential start-up.

These include:

- A brief overview of the venture capital industry today, as well as a discussion of the typical venture fund structure;
- Common organizational issues encountered in the formation of a venture-backed start-up, including matters relating to initial capitalization, intellectual property, and more;
- Valuation methodologies that form the basis of the negotiation between the entrepreneur and the venture capitalist in anticipation of a venture investment;
- The challenges of fundraising, due diligence, and financing strategies;
- Typical investment terms found in the term sheet and the dynamics of negotiation between the entrepreneur and the venture capitalist;
- Elements of compensation, both cash and equity, that are common to venture-backed companies in the technology sector;
- Corporate governance in the context of a venture-backed start-up company and the typical dynamics that play out between VC and the entrepreneur in the post-financing phase.

The course is designed principally to address the interests of students who expect to embark on an entrepreneurial career, expect to assume a managerial role with a venture-backed start-up company, or wish to pursue a career in venture capital. In light of the time constraints associated with a half-unit course, the curriculum is confined to key fundamentals in the area of venture capital and start-up companies. The course will touch upon a range of fields including finance, accounting, executive compensation, strategy and corporate law and will attempt to identify mainstream "best practices" in the area of high growth potential start-ups. Students completing the course will have a solid understanding of the questions and issues that typical start-up face.

## Other Course Features and Resources

There will be a dedicated Canvas site for our course. Lecture notes, Caselettes, course materials that are not copyrighted by a third party and periodic announcements will be posted on this Canvas site. The Canvas URL is:

Section 2 and 4: <https://wharton.instructure.com/courses/1103864>

**You will be able to access Study.net through Canvas. All third party copyrighted readings are found on Study.net. You should receive an email with log-in information from Study.net at the beginning of the semester. Please contact [customerservice@study.net](mailto:customerservice@study.net) with any logon issues.**

## Requirements and Evaluation

The number of assigned readings in the course range from moderate to heavy, particularly at the beginning of the course. This syllabus, the assignments, and the readings have been organized so that students can manage the requirements efficiently. As in all courses, the lectures and discussions in the classroom will be much more meaningful if the required readings have been studied in advance. From time to time, mid-course changes in presentations or materials may be made to achieve academic objectives.

Please note that the readings are divided between Required and Supplemental readings. The Required Readings are generally comprised of secondary source materials provided for background. The Supplemental Materials consist of optional reading materials and examples of legal or business documents included for the purpose of illustrating the themes discussed in class.

The short case studies, or Caselettes, which will be used in this course are based on actual occurrences (with some degree of poetic license, as appropriate) and are substantially shorter than the traditional case study. Each Caselette has been prepared with the objective of highlighting “best practices”, conventions in the industry, or issues that are commonly encountered. The Caselettes will be posted on Canvas and are part of the required readings. The classes generally involve both lecture and case discussions—interaction and dialogue with the instructor is strongly encouraged.

For each Caselette, specific study questions have been assigned. In most class sessions, I will consider these questions and the material in the case.

Students are asked to form study group teams of up to **five students** per **team within their section to which they are registered**. Study groups are expected to meet to discuss each Caselette. Every effort will be made to keep these teams in the term sheet negotiation assignment to be handed out in Session 8. Choose your teammates carefully—changes will not be allowed once your study group team has been formed. While you are encouraged to form your study group before our first session, you are required to have formed a study group by the second session.

## Student Grades

The Wharton MBA grading practices will be used. The final course grade will be computed as follows:

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|--|-----|
| • Classroom participation                | 15% |
| • Case memos and other assignments       | 25% |
| • Negotiation submissions & presentation | 15% |
| • Quiz                                   | 45% |

**Individual class participation:** Active class participation is very important for this course. Both quantity and quality of your comments count. Because so much of the learning in this course occurs in the classroom, it is important that you attend every class. If you have to miss class, please notify the instructor and the TA in advance by e-mail. All students are expected to participate in class discussions. Students should expect to be cold called. **You are required to display your Wharton issued name tent in each class to facilitate teacher/student interaction.** Note: Failure to display your Wharton issued name tent may result in not getting any credit for the class session in which your Wharton issued name tent was not displayed. Further, a seating chart will be distributed at the beginning of the course. Students are required to sit in their selected seat.

**Case write-ups and other assignments:** For each of the assigned Caselettes or cases, **before** the start of class, each study group team will upload to Canvas, a write-up in which the study questions are addressed. The instructor recognizes the challenges of responding to the study questions of each Caselette given the pace of the course.

The write-up should be double-spaced, font size 11, and as a guideline should be limited to four pages in length. The four page limit is for text only. You may attach as many numerical calculations as you wish BUT your submission must be integrated into a single file. The names of the students in the study team must appear on the front page of the memo. Write these as if you were writing a recommendation to the major decision-maker in the case.

Write-ups of the Caselettes and problem sets will not be accepted after the class has started. **Credit will only be given to write-ups that are uploaded to Canvas before the start of the class to which the Caselette was assigned. No credit will be given for write-ups which are handed in late or not handed in.**

**You are required to upload the deliverables of the negotiation exercise before 11:59 pm the evening prior to the date of the term sheet negotiation debriefing class meeting. All team members are required to participate in the assigned presentation.**

Since 40% of your course grade depends on group work, you will be asked to evaluate the contributions of each of your study group colleagues using a form that will be distributed in class. The scores will affect individual grades on group assignments. Submission of this form in a timely manner is a requirement of the course.

**QUIZ: Will be held on Wednesday, December 4, 2013 in SH-DH 350.** It is open book/open notes. You must bring a calculator to the quiz. No laptops are allowed.

***Note: The instructor will take great care to grade as fairly as possible and will NOT discuss grades at the end of the course.***

### **Lecture Notes**

PDF files with the PowerPoint slides used in class will be posted onto Canvas prior to class.

**Learning Environment**

Students are expected to strictly adhere to **Concert Rules**, including:

- Class starts and ends exactly on time. Students are expected to be prompt.
- Students remain in attendance for the duration of the class, except in an emergency. Students who leave the class while it is in session will not be readmitted.
- Students display their Wharton issued name tents.
- All phones and electronic communication devices are turned off.

Note: The instructor, at his sole discretion, will apply grade penalties for any and all violations of these **Concert Rules**.

## Course Syllabus

<b>Session Number</b>	<b>Date</b>	<b>Topic</b>	<b>Case/activity</b>	<b>Submissions Due</b>
1	Monday, October 21, 2013	Course Introduction: The VC industry Today - An Industry in Transition		
2	Wednesday, October 23, 2013	Organizational Issues and Initial Capitalization in the Formation of a Startup	Caselette # 1: Organizational Issues in the Formation of a Start-Up	Case Memo Formation of study groups due
3	Monday, October 28, 2013	Valuation Methodologies	HBS Problem set case # N9-396-090 (Oct. 5, 1995)	Prepare questions 1 & 2
4	Wednesday, October 30, 2013	Valuation Methodologies (continued)	HBS Problem set case # N9-396-090 (continued)	Prepare questions 3 – 6
5	Monday, November 4, 2013	Guest Speaker: Jeff Grass		
6	Wednesday, November 6, 2013	Fundraising Challenges and First Round Financing	Caselette # 2: Considerations in Establishing the Initial Capitalization of the Start-Up  Caselette #3: Issues Encountered in Connection with a First Round Financing	Case Memo #2  Case Memo #3
7	Monday, November 11, 2013	Term Sheets		
8	Monday, November 18, 2013	Liquidation Preferences and Anti-dilution Formulas	Caselette # 4: Liquidation Preferences and Anti-dilution Formulas  Caselette # 5: Analysis of a Typical Venture Capital Term Sheet  Negotiation materials	Case Memo #4  Case Memo #5

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9	Wednesday, November 20, 2013	Guest Speaker: Michael Kopelman		
10	Monday, November 25, 2013	Corporate Governance Issues Primer and Compensation Issues in a VC-backed Company		
11	Monday, December 2, 2013	Term Sheet Negotiations and Debriefing	Teams must be ready to present their negotiated term sheet	See Term Sheet Negotiations for the content and timing of your deliverables
12	Wednesday, December 4, 2013	<b>QUIZ</b> <b>4:30 p.m. – 6:30 p.m.</b> <b>SH-DH 350</b>		

**Detailed Course Outline****Monday, October 21, 2013****Session 1: Course Introduction: The VC Industry Today - An Industry in Transition****Session 1**

- An overview of the venture capital industry and its role in fostering the growth firms
- Current industry trends
- The typical venture fund structure

**Required Reading**

- “A Note on the Venture Capital Industry,” Harvard Business School (HBS # 9-295-065, July 12, 2001)
- “How Venture Capital Works,” by B. Zider, Harvard Business Review (Nov-Dec 1998)
- “Market Structure Is Causing the IPO Crisis,” by David Weild and Edward Kim of Grant Thornton LLC (October 2009)

**Supplemental Reading**

- “A Hardware Renaissance in Silicon Valley,” by Nick Bilton and John Markoff, *The New York Times* (August 26, 2012)
- “Big Bang for the Buck,” by Joanna Glasner, *Venture Capital Journal* (September 2012)
- “Can Entrepreneurship Be Taught?” by Noam Wasserman, *Wall Street Journal* (March 19, 2012)
  - “Yes: Learn About the Pitfalls,” by Noam Wasserman, *Wall Street Journal* (March 19, 2012)
  - “No: The Best Class Is Real Life,” by Victor W. Hwang, *Wall Street Journal* (March 19, 2012)
  - “Made or Born? Characteristics of successful entrepreneurs,” by Ernest & Young, *Wall Street Journal* (March 19, 2012)
- “Fund Performance: The Troubled Life of 1999 Funds,” by Mark Boslet, *Venture Capital Journal* (October 15, 2012)
- “Institutional Limited Partners Must Accept Blame for Poor Long-Term Returns from Venture Capital, Says New Kauffman

Report,” by Rose Levy and Barbara Pruitt, Kauffman Foundation (May 7, 2012)

- “Internet Companies are Booming Again. Does that Mean it is Time to Buy or to Sell?” *The Economist* (May 12, 2011)
- “Mid-Size VC Funds Dwindle,” by Mark Boslet, *Venture Capital Journal* (October 8, 2012)
- “The Next 10 Years Will Be Great For Both Founders and VCs,” by William Quigley, *Techcrunch.com* (May 8, 2011)
- “The Revenge of the Nerds, the Sequel: Silicon Valley Wallflowers Now Hot,” by Pui-Wing Tam and Ben Worthen, *Wall Street Journal* (September 24, 2012)
- “The VC Industry is Broken. Now What?” by Stacey Higginbotham, *Bloomberg Business Week* (May 8, 2012)
- “Time is Running Out for Bubble-Era Funds,” by Mark Boslet, *Venture Capital Journal* (October 21, 2012)
- “VCs Face the Millennial Challenge” by Joanna Glasner, *Venture Capital Journal* (July 30, 2012)
- “Venture Capital Investments Decline in Dollars and Deal Volume in Q3 2012,” by the National Venture Capital Association (October 19, 2012)

**Wednesday, , 2013****Session 2: Organizational Issues and Initial Capitalization in the Formation of a Startup****Study groups must be formed****Submissions Due: Caselette Memo #1****Session 2**

- Forming the company; creating a capital structure in preparation for venture funding
- Intellectual property
- Founders’ stock and foundations of equity incentive arrangements
- **Prepare Caselette #1: Organizational Issues in the Formation of a Start-Up (due before start of class)**

**Required Reading**

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- “The Legal Forms of Organization,” Harvard Business School (HBS # 9-898-245, February 19, 2004)
- “The Legal Protection of Intellectual Property,” Harvard Business School (HBS # 9-898-230, April 17, 1998)
- “The Process of Forming the Company.” Chapter 3 of High tech start-up: the complete handbook for creating successful new high tech companies, by J. Nesheim (2000)
- “Venture Capitalists,” Chapter 9 in High tech start-up: the complete handbook for creating successful new high tech companies, by J. Nesheim (2000)

**Supplemental Reading**

- “Avoiding Trouble: Provisions in Previous Employment Documents that Every Start-up Company Founder Needs to Review,” by Yokum Taku, WSGR Entrepreneurs Report (Winter 2008)
- “Guide to Trademark Issues for a New Company,” WSGR Entrepreneurs Report (2005)
- “Selecting and Protecting a Company Name,” by Aaron Hendelman, WSGR Entrepreneurs Report (Summer 2008)
- “Starting Up: Sizing the Stock Option Pool,” by Doug Collom, WSGR Entrepreneurs Report (Summer 2008)
- “Startup Companies and Financing Basics,” by Yoichiro Taku, WSGR Entrepreneurs Report (Fall 2007)
- “Top 10 Intellectual Property Tips for Early-Stage Companies,” by Peter Eng, WSGR Entrepreneurs Report (Summer 2008)
- “Vesting of Founders’ Stock: Beyond the Basics,” by Doug Collom, WSGR Entrepreneurs Report (Spring 2008)
- 2010 Equity Incentive Plan
- 2010 Stock Option Agreement

**Monday, October 28, 2013**

**Session 3: Valuation Methodologies  
Case Questions 1 & 2 Due**

**Session 3**

- Financial valuation methodologies; the art and the science of valuation
- Financing strategies and the impact of dilution
- **Case Discussion:** The Venture Capital Method – Valuation Problem Set (HBS case # N9-396-090, October 5, 1995)  
**(Questions 1 and 2 are due before start of class.)**

**Required Reading**

- “A Note on Valuation in Private Company Settings.” (HBS # 9-297-050, April 2002)
- “Ownership, Dilution, Negotiation, and Valuation,” Chapter 7 in High tech start-up: the complete handbook for creating successful new high tech companies, by J. Nesheim (2000)
- “Valuation: What It’s Worth,” VentureEdge 2001

**Supplemental Reading**

- “What’s My Company Worth?” by Herb Fockler, WSGR Entrepreneurs Report (Fall 2007)

**Wednesday, October 30, 2013**

**Session 4: Valuation Methodologies  
cont’d**

**Case Questions 3-6 Due**

**Session 4**

- **Case Discussion:** The Venture Capital Method – Valuation Problem Set (HBS case # N9-396-090, October 5, 1995)  
**(Questions 3 through 6 are due before start of class.)**

**Monday, November 4, 2013**

**Session 5: Guest Speaker – J. Grass**

**Wednesday, November 6, 2013**

**Session 6: Fundraising Challenges and  
First Round Financing**

**Caselette Memo #2 Due; Caselette Memo  
#3 Due**

*Course Syllabus***Session 6**

- Raising capital; the role of the business plan; fundraising strategies
- Due diligence: content and process
- Basic building blocks involved in equity financings with venture investors
- Corporate structures to support financing
- **Prepare Caselette #2:** Considerations in Establishing the Initial Capitalization of the Start-Up (**due before start of class**)
- **Prepare Caselette #3:** Issues Encountered in Connection with First Round Financing (**due before start of class**)

**Required Reading**

- “Meeting with the Venture Capitalist,” by W. Kingsley in Pratt’s Guide to Private Equity Sources, by Thomson Venture Economics (2004)
- “New Venture Financing,” Harvard Business School (HBS # 9-802-131, August 1, 2006)
- “Non-Traditional Financing Sources,” by G. Sneddon and J. Turner in Pratt’s Guide to Private Equity Sources, by Thomson Venture Economics (2004)
- “Strategic Investors in the Early-Stage Company,” by Allison Spinner, WSGR Entrepreneurs Report (Winter 2007)
- “Super Angels Fly In to Aid Start-Ups,” Tam & Ante, WSJ (Aug. 16, 2010)
- “VC Nomenclature and the Investor Spiral,” by Manu Kumar, CNNMoney (May 16, 2011)
- “VC ‘Super Angels’: Filling a Funding Gap or Killing ‘The Next Google?’” Knowledge@Wharton (September 1, 2010)
- “Venture Capital Negotiations: VC versus Entrepreneur.” Harvard Business School (HBS# 9-800-170, March 2, 2000)

**Supplemental Reading**

- “Accelerators Get No Respect,” by Tom Stein, Venture Capital Journal News (September 2012)
- “David Cohen: Accelerators and Incubators are More than a Fad,” by Mark Boslet, Venture Capital Journal (October 2012)

- “Financing a start-up? Ask yourself these three questions.” by Roger Ehrenberg, CNNMoney (May 19, 2011)
- “Fundraising Workshop,” Deloitte & Touche
- “Hatching Startups,” by Mark Boslet, Venture Capital Journal (April 2011)
- “Is Crowd-Funding on the Horizon?” by Cydney Posner, Cooley LLP (September 14, 2011)
- “Jobs Act Awaiting President’s Signature,” WSGR Alert (March 2012)
- “More Angels Pile Into Deals,” by Constance Loizos, Venture Capital Journal (June 2011)
- “Perfecting Your Pitch,” by Brad Feld, WSGR Entrepreneurs Report (Winter 2008)
- “San Francisco is Fast Becoming a Technology Hub,” by Jon Swartz and Scott Martin, USA Today (July 2012)
- “Seed is the New Series A for VCs,” by Caine Moss of WSGR, VentureBeat (August 24, 2009)
- “SeriesSeed.Com: Series Seed Financing Documents Blog,” by Seriesseed.com (May 2012)
- “Should Equity-Based Crowd Funding Be Legal?” Wall Street Journal (March 2012)
  - “Yes: It’s Good for Everybody,” by Dave Lavinsky, Wall Street Journal (March 2012)
  - “No: The Risk are too High,” by John M. Torrens, Wall Street Journal (March 2012)
  - “Chart: Get Together: Taking stock of the Crowd-Funding Industry,” by Crowdsourcing LLC, Wall Street Journal (March 2012)
- “The Fundraising Process: Best Practices for Entrepreneurs and Directors,” by Robert Housley and Evan Kastner, WSGR Entrepreneurs Report (Summer 2009)
- “The Return of Corporates,” by Mark Boslet, Venture Capital Journal (August 2011)
- “To Have and Have Not,” by Mark Boslet, Venture Capital Journal (June 2011)
- “Top Startup Incubators and Accelerators: Y Combinator Tops With \$7.8 Billion In Value,”

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- by Tomio Geron & Ryan Mac, Forbes (April 2012)
- “Venture Capital Firms, Once Discreet, Learn the Promotional Game,” by Nicole Perlroth, New York Times (July 2012)
- Form of Convertible Note
- Sample Bridge Note Financing Term Sheet

**Monday, November 11, 2013****Session 7: Lecture on Term Sheets****Session 7**

- Environmental factors surrounding term sheets
- Selected critical elements in venture term sheets

**Required Reading**

- “Anti-Dilution Protection: What You Need to Know,” by Mark Baudler, WSGR Entrepreneurs Report (Spring 2008)
- “Liquidation Preferences: What They Really Do,” by Craig Sherman, WSGR Entrepreneurs Report (Winter 2007)

**Supplemental Reading**

- “Control: The Critical Issue in Negotiating Financing Terms,” by Caine Moss, WSGR Entrepreneurs Report (Fall 2008)
- “Founders Now Take the Money and Maintain Control,” by Evelyn M. Rusli, The New York Times (April 7, 2011)
- “Navigating Down-Round and Dilutive Financings,” by Yokum Taku, WSGR Entrepreneurs Report (Fall 2008)
- “The Nuts and Bolts of Recaps and Pay-To-Play Financings,” by Timothy Harris, Venture Capital Journal (May 2010)
- Memorandum of Terms for Preferred Stock (negotiated)
- Memorandum of Terms for Preferred Stock (non-negotiated company favorable)
- Memorandum of Terms for Preferred Stock (non-negotiated investor favorable)
- NVCA Model Documents: “Term Sheet for Series A Preferred Stock Financing...”

- Terms for Private Placement of Series Seed Preferred Stock
- The Funded Founder Institute: “Plain Preferred Term Sheet”
- WSGR Term Sheet Generator: “Memorandum of Terms”

**Monday, November 18, 2013****Session 8: Liquidation Preferences and Anti-Dilution Formulas****Caselette Memo #4 Due & Caselette Memo #5 Due****Term Sheet Negotiation Assignments****Session 8**

- **Prepare Caselette #4:** Liquidation Preferences and Anti-dilution Formulas (**due before start of class**)
- **Prepare Caselette #5:** Analysis of a Typical Venture Capital Term Sheet (**due before start of class**)
- **Term Sheet Negotiation Assignment**
- Materials explained
- Selection of negotiating teams

**Note:** At the end of this class session we will confirm with you the pairing of the negotiation teams. Each team will be designated as either Entrepreneurs or as VCs.

We will pair two VC teams with a single Entrepreneur team. Each Entrepreneur team will get term sheets which reflect initial offers from the two different VC teams. Everyone will get a “backgrounder” document which explains the assignment in great detail.

For Session 11 on **Monday, December 2, 2013**, each team will be required to summarize and present to the class the results of the term sheet negotiation. **Deliverables are due at 11:59 pm the night before your class presentation.**

The exact details of the negotiation process and the presentations that are due on **December 2** will be outlined in the materials which will be handed out to you.

**Wednesday, November 20, 2013****Session 9: Guest Speaker: M. Kopelman****Monday, November 25, 2013****Session 10: Corporate Governance Issues and Compensation Issues in a VC-backed Company****Session 10**

- Board members' duty to stockholders
- Composition and roles of the board of directors in the private company
- Sarbanes Oxley and the private company
- Compensation Elements
- ISOs and NSOs
- The impact of 123R on Incentive compensation in the high growth potential company
- Implications of IRC section 409A
- Alternative forms of incentive compensation

**Required Reading**

- "New Rules on Option Pricing for Private Companies," by Craig Sherman & Scott McCall, WSGR Entrepreneurs Report (Fall 2007)
- "The Do's and Don'ts of Compensation for Early-Stage Company Employees," by Kristen Garcia Dumont and Jennifer Martinez, WSGR Entrepreneurs Report (Fall 2008)

**Supplemental Reading**

- "A Big Bet on Zuckerberg," by Steven M. Davidoff, Deal Professor (February 2, 2012)
- "A Brave New Board Era," Venture Capital Journal (March 2006)
- "A Fight for Silicon Valley: Founders Push for Control," By Joann S. Lublin & Spencer E. Ante, Wall Street Journal (July 2012)
- "How to Turn A 'Bored' Meeting Into A Real Board Meeting." Venture Capital Journal (August 2006)

- "In Silicon Valley, Chieftains Rule With Few Checks and Balances," by Steven M. Davidoff, Deal Professor (July 4, 2012)
- "Interesting Approaches to Unique Problems: Partial Cash-Out of Founders' Stock," by Doug Collom, WSGR Entrepreneurs Report (Fall 2007)
- "New Shares Gives Google Founders Tighter Control," by Steven M. Davidoff, Deal Professor (April 13, 2012)
- "The Basic Responsibilities of VC-Backed Company Directors," by Working group on Director Accountability and Board Effectiveness (January 2007)
- "VCs Take CEO and Board Relationships to the Next Level," by Ben Holzemer, Venture Capital Journal (July 2010)
- Equity Compensation Overview Memorandum (WSGR)
- Five Compensation-Related Mistakes Startups Make (And Should Avoid)

**Monday, December 2, 2013****Session 11: Term Sheet Negotiations and Debriefing**

**See page 12 of Syllabus for instructions.**

**Session 11**

During this session, teams will present their negotiated term sheets and discuss the issues they ran into during the negotiation.

**Deliverables are due at 11:59 pm the night before your class presentation.**

**Submissions Due:**

- **Each investor team and the founder to prepare a PowerPoint presentation, which includes the final proposed valuations as well as commentary on the key terms that were critical in the negotiation of the term sheet.**
- **Additionally, Founders must provide a detailed summary of the final agreement using the format outlined in the Negotiation Instruction handout which will be distributed in class.**

**Wednesday, December 4, 2013**

**QUIZ 4:30 p.m. – 6:30 p.m. SH-DH 350**

**QUIZ**

- **Bring your calculator.** No laptops allowed.
- *Open books*
- *Open notes*
- *Open minds*