Update: May 21, 2015

University of Pennsylvania
The Wharton School
Management Department

Venture Capital and Entrepreneurial Management

MGMT 804, Section 1, Q1 – Fall 2015
JMHH G65, MW 9:00 AM – 10:20 AM
MGMT 804, Section 3, Q1 – Fall 2015
JMHH G65, 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[1] 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 10-year life, and venture capital as an asset class that developed in the late 1970's has historically produced a 15-20% pooled return on investment. As is well known, however, the industry is cyclical. Soaring returns were realized during the dot-com era in the late 1990s and 2000. Then, in the decade following the dot-com bust, returns crashed hard and stayed in deeply negative territory. At the end of 2010, the average pooled 10-year return for the industry was recovering but still negative (-2.2%), and only nudged back into positive territory in 2011 (3.3%), although still considerably underperforming the S&P 500 and the Russell 2000. At the end of 2014, the 10-year return for the industry at

[1] 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 (social media, e-commerce, gaming, Web 2.0, etc.).

9.7% is still climbing. And these are industry-wide returns—if returns for just those VC firms in the top-tier bracket like Sequoia Capital, Andreessen Horowitz, Kleiner Perkins, NEA and others are considered, the word on the street is that these returns are well above even historical norms for the asset class. In short, the venture capital industry is back.

- That's not to say venture capital has had an easy time of it. The industry is experiencing a period of seismic change, perhaps one that permanently changes the infrastructure. For several years, the VC industry was in a state of contraction. Of the approximately 1,000 VC firms in existence in 2000, the number of firms that were actively investing had dropped at the end of 2010 to about 460. In a similar vein, of the approximately 9,000 principals in the VC industry in 2007, that number declined to approximately 6,000 in 2015. But a structural change appears to be in the works; while the number of mid-range funds ($100-500 million) continues in decline, the number of billion dollar plus funds, smaller boutique funds (less than $100 million) and institutional seed stage funds are on the rebound. The increase in the billion dollar plus funds reflects a remarkable "flight to quality" by the institutions that provide funding as limited partners to the venture firms. Firms such as Andreessen Horowitz, Norwest Capital, TCV and Accel have all recently raised funds of $5 billion or more. On the other end of the scale, many of the mid-size VC firms have formed "sidecar" or "opportunity" funds or taken up stage-agnostic investing to capture the explosion of seed stage companies. And the boutique firms that have always focused on early stage companies—firms such as First Round Capital, Charles River Capital, Floodgate Partners and Felicis Ventures—are thriving in the current environment.

- Structural changes to the startup ecosystem itself are unprecedented and having a major impact on the traditional venture capital model. The range of resources and tools that are now freely available to founders has substantially lowered the required initial capital to start a business—by one account, the typical infrastructure costs of starting a company (access to servers, development tools, marketing outreach, customer acquisition costs and the like) have been cut by 95%. This development has resulted in an explosion of new early stage companies, and has greatly reduced the dependence of the entrepreneurial community on VC firms for traditional early stage funding.

- In addition, the investment ecosystem now abounds in alternative financing channels that have emerged over the last few years, including: incubators and accelerators that provide money as well as mentoring; legitimate crowdfunding made possible by recent regulatory changes; "demo days" sponsored by numerous business associations, angels and super-angels; stage-agnostic VC firms willing to make small investments simply to get access to promising young startups; even PE firms and investment banking firms looking to build a relationship with the prospect of future business. With all these alternative financing sources now in play, the competition for deal flow is intense, forcing the traditional institutional VC firms to rethink their business models and re-evaluate their competitive strategies. It is also tilting the playing field strongly in favor of entrepreneurs as they negotiate financing terms with VCs.

- Pre-money valuations for early stage companies at all levels of financing—seed stage through mezzanine rounds—have increased as the tech sector and the venture industry that supports it continue to thrive. On the investor side of the equation, just a few of the relevant factors in play:

- The usual exits for venture-backed companies, consisting of the U.S. IPO market and the M&A market, are performing reasonably well and providing high confidence that investments in successful companies can be monetized with strong returns. And everyone is mindful of stunning valuations recently achieved by early stage companies (e.g., the 2014 acquisition of WhatsApp by Facebook for $19 billion; the $1.2 billion financing of Uber in 2014 on a pre-money valuation of $17 billion; and the market capitalization at IPO of Twitter in 2014 of $18 billion, to name only a few);

- The flood of money coming into the asset class resulting from VC fundraising activities at the end of Q3 for 2014—over $25 billion—already exceeds all of 2015 and is on a pace to outstrip the industry fundraising average of $20-$30 billion per year;

- As an industry average, the amount of capital for which each general partner within a VC firm is responsible has increased from $3 million in 1980 to $30 million today. As a result, there is internal pressure for each partner to deploy larger amounts of money in a company to rationalize that partner's commitment of time to the company. With founders holding firm on the amount of dilution they are willing to accept, valuations have climbed;

- The competition for deal flow among VC firms has intensified, particularly given the growth of financing alternatives in the form of incubators/accelerators, angels and angel groups, and boutique VC firms, and as well the entry of traditional VC firms now reaching down to make seed investments in raw startups.

- On the company side of the equation, additional factors affecting valuation are in play:

    - Early stage companies are able to advance their product development and customer acquisition activities and significantly de-risk the business model by bootstrapping—thus commanding a higher valuation at the time the first institutional investment is made;

    - For those companies that are perceived as having all of the necessary ingredients for a successful launch—capable management team, substantial market and unique product—the basic forces of supply and demand are alive and well and highly favorable to the founder. The tech sector is awash in capital chasing relatively few great companies.

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 (including the angel and early stage professional investor). As well, we will address management issues regarding the working relationship between the VC and the entrepreneur, corporate governance, and executive compensation.

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 counterpoint to, the entrepreneur's outlook, is the perspective of the professional investor, 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, we 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. We 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 and related venture capital objectives and investment strategies;

- Common organizational issues encountered in the formation of a venture-backed start-up, including matters relating to initial capitalization, intellectual property, and early stage equity incentive and compensation arrangements;

- 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, financing strategies, and the importance of the business plan and presentation

- Elements of compensation, both cash and equity, that are common to venture-backed companies in the technology sector;

- Typical investment terms found in the term sheet and the dynamics of negotiation between the entrepreneur and the venture capitalist;

- 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. The course assumes a basic understanding of general business principles. 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 face the typical start-up.

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:

https://canvas.upenn.edu/courses/1279792

- **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 with any logon issues.**

Requirements and Evaluation

The assigned readings in the course are in the range of 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.

The readings are divided into two components: Required Readings and Supplemental Materials. 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. All required readings and supplemental readings, organized by session, can be found on Canvas or in the Study.net window found on the Canvas website.

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 found on Canvas, and are part of the required readings. The classes generally will involve both lecture and case discussions, with interaction and dialogue with the instructor strongly encouraged.

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

Students are asked to form study group teams of up to 5 students per team. Study groups are expected to meet to discuss each caselette. Choose your teammates carefully – changes will not be allowed once your study group team has been formed. As a group assignment is due for our first class meeting, you are encouraged to form your study group before our first session.

Student Grades

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

- 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. The quality of your comments counts as much as your participation activity level. 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, for one reason or another, 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 name tent was not displayed.

Case write-ups and other assignments: For each of the assigned caselettes or cases, **before the start of class**, each study group team will turn in a hard copy (or submit online into a designated folder on Canvas) of the write-up in which the study questions are addressed. The instructors recognize 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 integrated into a single file. The names of the students in the study team must appear on front page of the memo. Write these as if you were writing a recommendation to the major decision-maker in the case.

Write-ups will not be accepted after the class has met. **Credit will only be given to write-ups which are submitted in hard copy (or posted online) at the beginning 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.**

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 this course.

QUIZ: Will be held on October 14 during class time. It may be taken on an open book/open notes basis. Students should bring a calculator to the quiz. No laptops are allowed.

Note: The instructors will take great care to grade as fairly as possible and will not discuss grades at the end of the course. Students wishing to discuss their Quiz must make an appointment with the TA to do so.

Lecture Notes

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

Required Texts

Course Readings: MGMT 804: Venture Capital and Entrepreneurial Management, Spring 2015 edition, compiled by Raffi Amit. All readings are available on Canvas or Study.net.

Learning Environment

Consistent with the MBA Resource Guide students are expected to strictly adhere to **Concert Rules,** including:

- Class starts and ends exactly on time. Students and faculty are expected to be prompt.
- Students remain in attendance for the duration of the class, except in an emergency.
- Students display their Wharton issued name tents.
- All phones and electronic devices are turned off.

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

Session Number	***Date***	***Topic***	***Case/activity***	***Submissions Due***
1	Wednesday, August 26, 2015	Course Introduction: The VC industry Today- An Industry in Transition		
2	Monday, August 31, 2015	Evaluating Opportunities	ZX Microfinance Case	
3	Wednesday, September 2, 2015	Organizational Issues and Initial Capitalization in the Formation of a Start-Up	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
4	Wednesday, September 9, 2015	Fundraising Challenges		
5	Monday, September 14, 2015	Valuation Methodologies		
6	Wednesday, September 16, 2015	Valuation Methodologies (optional)	HBS Problem Set (HBS case # N9-396-090)	Prepare Question 1-6
7	Monday, September 21, 2015	Lecture on Term Sheets		
8	Wednesday, September 23, 2015	Negotiating the Term Sheets	Caselette #4: Liquidation Preferences and Anti-dilution Formulas Caselette #5: Analysis of a Typical Venture Capital Term Sheet	Case Memos #4 and #5 Detailed guidance of negotiations will be provided in class

9	Monday, September 28, 2015	Integrating the Valuation with Term Sheet	The LuckyPai Case	
10	Wednesday, September 30, 2015	Corporate Governance and Compensation		
11	Monday, October 5, 2015	Guest Speaker		
12	Wednesday, October 7, 2015	Class Presentations on Term Sheet Negotiations		See details of deliverables
13	Monday, October 12, 2015	Class Presentations on Term Sheet Negotiations (optional)		See details of deliverables
14	Wednesday, October14, 2015	Quiz		

Detailed Course Outline

Wednesday, August 26, 2015

Session 1: Course Introduction: The VC Industry Today; VC Firm Structure and Activities

<u>Session 1</u>

- An overview and brief history of the venture capital industry and its role in fostering the growth firms
- Current industry trends
- The typical venture fund structure and investment terms; venture capital objectives and investment strategies; role of the general partners

Session 1 Required Reading

- "A Note on the Venture Capital Industry," <u>Harvard Business School</u> (HBS # 9-295-065, July 12, 2001)
- "Here's The Evidence That The Tech Bubble Is About To Burst" by Jim Edwards, Business Insider (November 5, 2014)

Session 1 Supplemental Reading

- "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 Ernst & Young, Wall Street Journal (March 19, 2012)
- "LPs Warm Up To Venture" by Mark Boslet, Venture Capital Journal (October 15, 2014)
- "Math Beats Myth for LPs Investing in Venture," by Rory O'Driscoll, Scale Venture Partners (May 10, 2013)
- "4Q 2014 PitchBook U.S. Venture Industry Report" by Alex Lykken & Andy White & Daniel Cook& Garret Black
- "Private Equity Distributions Hit an All-Time High in 2013, and Venture Capital Produced Its Highest Annual Return in 15 Years, According to Cambridge Associates Benchmarks" (July 2014)
- "Why the Structural Changes to the VC Industry Matter" by Scott Kupor (July 30, 2014)
- "The Changing Structure of the VC Industry" by Mark Suster (July 22, 2014)
- "The Entrepreneurs Report: Private Company Financing Trends Q3 2014" Wilson Sonsini Goodrich & Rosati
- "The New Reality of Venture Capital" by Joey Dwyer (February 25, 2014)
- "The Other Problem with Venture Capital: Management Fees," by Chris Dixon (August 26, 2009)
- "The Venture Capital Funnel" CB Insight (April 7, 2014)
- "Venture-Backed IPO Exit Activity Extends Streak of 20+ Offerings for Sixth Consecutive Quarter" By Ben Veghte and Lauren Herman, National Venture Capital Association (October 1, 2014)

Monday, August 31, 2015

Session 2: Evaluating Opportunities: The ZX Microfinance Case

<u>Session 2</u>

- Opportunity definition and recognition
- Frameworks on evaluating opportunities

Session 2 Required Reading

- ZX Microfinance (Wharton Case-90, July 31, 2014) (**<u>Case preparation questions posted on Canvas</u>**)

Session 2 Supplemental Reading

- "Criteria used by venture capitalists to evaluate business plans" by I. MacMillan, R. Siegel, and P. Subba Narashima. Journal of Business Venturing. 1, 119-128 (1985)

Wednesday, September 2, 2015

Session 3: Organizational Issues and Initial Capitalization in the Formation of a Start-Up

Submissions Due: Case Memo #2 & #3

Session 3

- Forming the company; creating a capital structure in preparation for venture funding
- Founders' stock and foundations of equity incentive arrangements
- 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 at the beginning of class)**
- ***Prepare Caselette #3*:** Issues Encountered in Connection with First Round Financing (**Due at the beginning of class)**

Session 3 Required Reading

- "The Legal Forms of Organization," Harvard Business School (HBS # 9-898-245, February 19, 2004)
- "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)

Session 3 Supplemental Reading

- "Dividing Equity Between Founders," by Chris Dixon (August 23, 2009)
- "Don't Build Your Startup Outside of Silicon Valley," Harvard Business Review (October 23, 2013)
- "Dream Teams: The Characteristics of Billion-Dollar Startup Founders," by Tomasz Tunguz, Red Point (October 29, 2013)
- "Vesting of Founders' Stock: Beyond the Basics," by Doug Collom, WSGR Entrepreneurs Report (Spring 2008)
- "Founder Vesting: Five Tips For Entrepreneurs," by Scott Edward Walker, Walker Corporate Law Group (September 10, 2009)
- "Selecting and Protecting a Company Name," by Aaron Hendelman, WSGR Entrepreneurs Report (Summer 2008)
- "Top 10 Intellectual Property Tips for Early-Stage Companies," by Peter Eng, WSGR Entrepreneurs Report (Summer 2008)
- "Starting Up: Sizing the Stock Option Pool," by Doug Collom, WSGR Entrepreneurs Report (Summer 2008)

Wednesday, September 9, 2015

Session 4: Fundraising Challenges

Session 4

- Sources of capital
- Alternative forms of fundraising
- Fundraising process and fallacies

Session 4 Required Reading:

- "New Venture Financing" Harvard Business School (HBS note # N9-802-131, Aug. 1, 2006)
- A Mini-Case: Angel Investing and Convertible Note

Session 4 Supplementary Reading:

- "Strategic Investors in the Early-Stage Company" by Allison Spinner, WSGR Entrepreneurs Report (Winter 2007)
- "Best Practices For Raising a VC Round," by Chris Dixon (May 4, 2011)
- "How Crowd-Funding Is Changing Everything and What That means for Your Startup", First Round Review
- "Convertible Notes in Angel Financing." Harvard Business School (HBS# 9-813-017, September 11, 2012)
- "VC 'Super Angels': Filling a Funding Gap or Killing 'The Next Google'?", Knowledge@Wharton (September 1, 2010)
- Convertible Note Financing (Summary of Terms)

Monday, September 14, 2015

Session 5: Valuation Methodologies

Session 5

- Financial valuation methodologies; the art and the science of valuation
- Financing strategies and the impact of dilution

Session 5 Required Reading

- "A Note on Valuation in Private Company Settings." Harvard Business School (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)

Session 5 Supplemental Reading

- "How Do VC's and Angels Value a Company?" by Jeff Carter (August 8, 2014)
- "How Funding Rounds Differ: Seed, Series A, Series B, and C…" Elad Blog (March 15, 2011)
- "Series A Dynamics – Ownership, Timing, and Valuation" by Rob Go, NextView Ventures (May 20, 2014)
- "The Series A Round is the New Series B Round" by Jeff Jordan (June 18, 2013)
- "The Top 20 Reasons Startups Fail" CB Insight
- "Welcome to The Unicorn Club: Learning From Billion-Dollar Startups," by Aileen Lee, Cowboy Ventures, TechCrunch (November 2, 2013)
- "When Seed Funding is Better Than Series A" by Carl Showalter (October 9, 2007)

Wednesday, September 16, 2015

Session 6: Valuation Methodologies (optional)
Submissions Due: HBS Problem Set

Session 6

- ***Case Discussion*:** The Venture Capital Method – Valuation Problem Set (HBS case # N9-396-090)**- Questions 1 through 6 are due at the beginning of class**

Monday, September 21, 2015

Session 7: Lecture on Term Sheets

Session 7

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

Session 7 Required Reading:

- "Venture Capital Negotiations: VC versus Entrepreneur." Harvard Business School (HBS# 9-800-170, March 2, 2000)

Session 7 Supplementary Reading:

- "Control: The Critical Issue in Negotiating Financing Terms," by Caine Moss, WSGR Entrepreneurs Report (Fall 2008)
- "Navigating Down-Round and Dilutive Financings," by Yokum Taku, WSGR Entrepreneurs Report (Fall 2008)
- "Mark Suster: The Authoritative Guide to Pro-rata Rights" by Mark Suster, Venture Capital (October 13, 2014)

Wednesday, September 23, 2015

Session 8: Negotiating the Term Sheets
Submissions Due: Case Memo #4 and #5

Session 8

- Review and discuss caselettes regarding term sheets
- ***Prepare Caselette #4:*** Liquidation Preferences and Anti-dilution Formulas (**Due at the beginning of class)**
- ***Prepare Caselette #5*:** Analysis of a Typical Venture Capital Term Sheet (**Due at the beginning of class)**

Session 8 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)

Session 8 Supplemental Reading

- 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)
- Terms for Private Placement of Series Seed Preferred Stock
- "Memorandum of Terms," WSGR Term Sheet Generator
- "Plain Preferred Term Sheet," TheFunded Founder Institute
- "Term Sheet for Series A Preferred Stock Financing," NVCA Model Documents
- Terms for Private Placement of Series Seed Preferred Stock

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 against 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 the class on **October 7 and October 12**, each team will be required to summarize and present to the class the results of the term sheet negotiation.

The exact details of the negotiation process and the presentations that are due on **October 6 at 8pm** will be outlined in the materials which will be handed out to you.

Monday, September 28, 2015

Session 9: Integrating the Valuation with Term Sheet

Session 9

- Integrating the valuation with term sheet

Session 9 Required Reading:

- An Early-Stage VC Investment: DT Capital Financing of LuckyPai (Wharton Case-88, July 31, 2014) (**Case preparation questions posted on Canvas**)

Wednesday, September 30, 2015

Session 10: Corporate Governance and Compensation

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

Session 10 Required Reading

- "After The Term Sheet," by Dennis T. Jaffe and Pascal N. Levensohn (November 2003) (Missing Doc)
- "Rites Of Passage," by Pascal N. Levensohn (January 2006)
- "Five Compensation-Related Mistakes Startups Make (And Should Avoid)," by Caine Moss of WSGR, Venture Beat (February 9, 2010)
- "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)

Session 10 Supplemental Reading

- "CEO Playbook for Early Stage Board Meetings," by Geoff Yang, Red Point (August 2, 2013)
- "Corporate Governance and Disclosure Practices of Venture-Backed Companies In U.S. Initial Public Offerings," Wilson Sonsini Goodrich & Rosati (July 2011-June 2012)

- "The Basic Responsibilities of VC-Backed Company Directors," by Working group on Director Accountability and Board Effectiveness (January 2007)
- "The Secret to Making Board Meetings Suck Less," First Round Review (October 18, 2013)
- "A Counterintuitive System for Startup Compensation" by First Round Capital, First Round Capital (November 2014)
- "Bay Area 150 Equity Compensation Practices," Compensia (October 2009)
- Equity Compensation Overview Memorandum (WSGR)
- "If, Why, and How Founders Should Hire A 'Professional' CEO," by Reid Hoffman (January 21, 2013)
- "Making Sense Out of Cents: Determining Employee Compensation" by Sharon Wienbar, Entrepreneur (March 14, 2014)
- "Option Pool Metrics Presentation," by Jim Brenner, Wilson Sonsini Goodrich & Rosati
- "When Should Startups Hire a CFO?" by Christian Gheorghe (October 22, 2014)

Monday, October 5, 2015

Session 11: Guest speaker

Wednesday, October 7, 2015

Session 12: Class Presentations on Term Sheet Negotiations

<u>Session 12</u>

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

Submissions Due:

- **Each investor team and the founders 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.**
- **Founders additionally provide a detailed summary of the final agreement using the format outlined in the Negotiation Instruction handout which will be distributed in class.**

Monday, October 12, 2015

Session 13: Class Presentations on Term Sheet Negotiations (optional)

Wednesday, October 14, 2015

Session 14: Quiz

<u>Session 14</u>

QUIZ

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