

Update: August 1, 2019

University of Pennsylvania
The Wharton School
Management Department

Venture Capital and Entrepreneurial Management

MGMT 804, Section 001, Q1 – Fall 2019

MW 9:00 AM – 10:20 AM

MGMT 804, Section 003, Q1 – Fall 2019

MW 10:30 AM – 11:50 AM

Classroom: SHDH 107

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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 supports¹ continue to evolve at a bewildering pace. Beginning with the dot-com bubble of 1998-2000, the industry has been buffeted by one dynamic development after another. These have included, among others, the dramatic economic upheaval in 2008-2009; the explosive growth of early stage companies with an Internet-based business model; the sharp reduction in infrastructure costs of starting up companies; the globalization of business in general; the proliferation of startups achieving “unicorn” valuations of \$1 billion or more; the emergence of crowdfunding and its ultimate application in the form of the Initial Coin Offering (ICO); and accelerators/incubators as increasingly effective means of forming and funding startups. In recent years the technology sector in general was experiencing another cycle change, characterized by an unprecedented bull market in the U.S. exchanges, high valuations, large round sizes including “megadeals” of \$100 million or more, and the substantial role of private secondary markets as an alternative exit outside of the traditional IPO and merger/acquisition channels.

Our class will cover many of the traditional conventions in the industry that have historically shaped investor and company behaviors, and the various industry dynamics that are affecting the current state of play.

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.

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, and mobile, etc.), biotech companies (medical device, pharmaceutical, life science, digital health and health care, etc.), clean and green tech companies (fuel cell, solar, wind, battery storage, conservation technologies, etc.), homeland security companies, and consumer companies (social media, e-commerce, gaming, web 2.0, etc.).

The entrepreneur's perspective addresses the challenges in organizing and financing the venture. The 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. As we explore the venture capitalist's perspective, we will address several aspects of the investment process including evaluating, structuring, and pricing venture capital investments. This will include 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 designed to achieve three main objectives:

1. Introduce you to basic concepts and topics in venture capital and the typical venture-backed start-up.
2. Help you to understand the issues in organizing and financing a VC-backed start-up company.
3. Expose you to methods and perspectives on valuing and structuring venture capital investments.

The course is pragmatic in its orientation and will cover eight principal areas relevant to privately held, high-growth-potential start-ups. 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.
- The challenges of fundraising, due diligence, and financing strategies.
- Valuation methodologies that form the basis of the negotiation between the entrepreneur and the venture capitalist in anticipation of a venture investment.
- 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.
- Managing the exit.

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, 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.

There is a dedicated Canvas site for our course. Lecture notes, caselettes, and course materials that are not copyrighted by a third party, as well as periodic announcements, will be posted on this Canvas site. The Canvas URL is: <https://canvas.upenn.edu/courses/1450986>

- 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.

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.

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

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

At the time that this issue of the Syllabus is prepared the class size is unknown. Students are asked to form study group teams of up to 5 students, who are registered in your section, per team. You are asked to sign up for a study group on Canvas before the course begins. The exact number of study groups (6 or 9) will be determined once registration data for each section of the course becomes available. 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.

Requirements and Evaluation

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

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| • Classroom participation | 20% |
| • Case memos and other assignments | 20% |
| • Negotiation submissions & presentation | 20% |
| • Quiz | 40% |

Individual class participation (20%): 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. You may use tablets for note-taking only. As a common courtesy to other students and the instructor, and consistent with Wharton’s “concert rules” and its electronics in the classroom policy (<https://mba-inside.wharton.upenn.edu/wharton-mba-academic-policies/>), any other use of electronics such as cell phones, tablets, or laptops is **not permitted** in the classroom. 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 called upon. If you are unprepared for the class session, please inform the instructor

before the beginning of the class and you will not be called upon. 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.

Case memos and other assignments (20%): For each of the assigned caselettes or cases, before the start of class each study group team will submit online, into a designated folder on Canvas, the write-up in which the study questions are addressed. The instructor recognizes the challenges of responding to the study questions of each caselette in advance of the class discussion of each topic.

The write-up should be double-spaced, in 11-point font, 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 front page of each 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 **posted online before the beginning** of the class session to which the caselette is assigned. No credit will be given for write-ups which are posted late or not posted.

Negotiation Exercise (20%): A critical component of the course is the negotiation exercise which enables students to apply and integrate their learning. The detailed instruction of the exercise will be handed out during the course. Each negotiation team is required to upload the deliverables of the negotiation exercise to Canvas before the deadline specified in the instructions (to be handed out in class). All team members are required to participate in the negotiation exercise and in the assigned presentation. More information about the exercise will be made available during the course.

Quiz (40%): Will be held on Wednesday **October 16th 2019** during class time. This is an open-book, open-notes quiz. Students must bring a calculator to the quiz.

Peer Evaluation: Since 40% of your course grade depends on group work, you will be asked to evaluate the contributions of each of your study group members using a form that will be distributed in class. Specifically, at the end of the class you will be evaluated (on a 0-100 scale) by each of your team members based on your contribution to each category of group assignments, namely caselette/problem-set memos and the negotiation exercise. The average of the evaluation by all of your team members will be used to adjust your individual grade in each group-assignment category. Submission of this form in a timely manner is a requirement of this course.

Note: The instructor will take great care to grade as fairly as possible and will not discuss grades at the end of the course. Students wishing to review their quiz are asked to make an appointment with the T.A.

Lecture Notes

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

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 are to remain in attendance for the duration of the class, except in an emergency.
- Students display their Wharton-issued name tents at every session.
- All mobile phones are turned off.

Note: The instructor reserves the right to apply grade penalties for any and all violations of these learning-environment guidelines.

Feedback and Questions

The instructor will do everything possible to provide you with a valuable and interesting learning experience. You are encouraged to provide feedback and suggestions at any time. For any course-related issues you would like to discuss, please feel free to contact the instructor via email, come to the office hour that is scheduled for Monday from 3-4PM, or set up an appointment with the instructor.

Course Outline At-a-Glance

MGMT 804 Fall 2019, Q1

<i>Session Number</i>	<i>Date</i>	<i>Topic</i>	<i>Case/Activity</i>	<i>Submissions Due</i>
1	Wednesday, August 28, 2019	Course Introduction: VC Firm Activities and Structure	Study group formation	
2	Wednesday, September 4, 2019	Evaluating Investment Opportunities	CredEx (A) Case	
3	Monday, September 9, 2019	Organizational Issues and Initial Capitalization in the Formation of a Start-Up	Caselette #2: Considerations in Establishing the Initial Capitalization of the Start-Up	Case Memo #2
4	Wednesday, September 11, 2019	Fundraising Challenges	Caselette #3: Issues Encountered in Connection with a First Round Financing	Case Memo #3
5	Monday, September 16, 2019	Lecture on the VC Valuation Method		
6	Wednesday, September 18, 2019	Applying the VC Valuation Method Note: this is an optional session. While a group submission is due, students who feel that they have sufficient understanding of the VC valuation method may choose not to attend.	HBS Problem Set (HBS case # N9-396-090)	Submit Questions 1-6
7	Monday, September 23, 2019	Lecture on Term Sheets		

8	Wednesday, September 25, 2019	Negotiating the Term Sheet	Caselette #4: Liquidation Preferences and Anti-Dilution Formulas	Case memo #4 Hand out negotiation materials
9	Monday, September 30, 2019	Analysis of a Term Sheet Compensation practices in VC backed start-ups	Caselette #5: Analysis of a Term Sheet	Case memo #5
10	Wednesday, October 2, 2019	Corporate Governance and Managing Exit	Class discussion about the Alantec handout	
11	Monday, October 7, 2019	Guest Speaker	Amir Goldman, Founding Partner, SGEP https://sgep.com/the-team/amir-goldman/	
12	Wednesday, October 9, 2019	Class Presentations on Term-Sheet Negotiations		See details of deliverables Submissions must be posted no later than: Tuesday, October 8 no later than 12:00 PM
13	Monday, October 14, 2019	Class Presentations on Term-Sheet Negotiations continues and review session		
14	Wednesday, October 16, 2019	In-class Quiz	Bring your calculator	

Detailed Course Outline

Note: The session outline below is subject to change in order to accommodate the pace of class discussions and guest speakers' schedules.

Wednesday, August 28, 2019

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

- An overview and brief history of the venture capital industry and its role in fostering the growth of firms
- Fundamentals of VC investments

Session 1: Required Readings

- “A Note on the Venture Capital Industry,” Harvard Business School (HBS # 9-295-065, July 12, 2001)

Session 1: Supplemental Readings

- “The State of Early-Stage VC Funding in 2018,” by Catherine Giese (August 20, 2018)
- “Recent Venture Capital Trends Have Researchers Worried. They Couldn’t Be More Wrong,” by Sean Wise (July 23, 2018)
- “Why Venture Capital Is No Longer a ‘Lifecycle Business,’” by Polina Marinova (August 30, 2018)
- “Venture Capital Investment in US Companies to Hit \$100B in 2018,” by Kate Clark (October 9, 2018)
- “Venture Monitor 3Q 2018,” by PitchBook and NVCA
- “How Much Does Venture Capital Drive the U.S. Economy?” by Ilya Strebulaev and Will Gornall (October 21, 2015)
- “As Private Valuations Increase, Returns Shrink, Study Finds,” by Rolfe Winkler (November 2, 2015)
- “Demystifying Venture Capital Economics, Part I,” by Andy Rachleff (June 19, 2014)
- “Demystifying Venture Capital Economics, Part II,” by Andy Rachleff (September 24, 2014)
- “Definitions on the Economics of VC,” by Scott Kupor (managing partner of Andreessen Horowitz), September 11, 2016
- “How Pricing and Volume Drive the Private Equity Secondary Market in 2018,” by Multiplicity Partners (July 3, 2018)
- “Venture’s liquidity release valve: Analysis of direct secondary markets for venture capital,” Pitchbook (August 2017)

Wednesday, September 4, 2019

Session 2: Evaluating Opportunities: The CredEx Case

- Opportunity definition and recognition
- The MMM Framework for evaluating opportunities

Session 2: Required Readings

- CredEx (A) (Wharton Case-90, revised January, 2016) (Case preparation questions posted on Canvas)

Session 2: Supplemental Readings

- “In Search of the Next Big Thing,” Harvard Business Review (May 2013)
- “How Venture Capitalists Evaluate Potential Venture Opportunities,” (HBS Note 9-805-019, December 1, 2004)

Monday, September 9 2019

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

Submission Due: Case Memo #2

- Forming the company and 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

Session 3: Required Readings

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

- “Cap Tables, Share Structures, Valuations, Oh My! A Case Study of Early Stage Funding,” by Jason Rowley (September 26, 2017)
- “Antidilution: The Other Way VCs Take More of Your Startup’s Equity,” by Jason Rowley (September 26, 2017)
- “How to Start a Startup,” Paul Graham (March 5, 2005)
- “How to Start a Startup,” [based on the essay by Paul Graham cited above] by Anna Vital (May 13, 2013)
- “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 Hwang, Wall Street Journal (March 19, 2012)
 - “Made or Born? Characteristics of Successful Entrepreneurs,” by Ernst & Young, Wall Street Journal (March 19, 2012)
- “Dividing Equity Between Founders,” by Chris Dixon (August 23, 2009)
- “Founder Vesting: Five Tips For Entrepreneurs,” by Scott Edward Walker, Walker Corporate Law Group (September 10, 2009)
- “Starting Up: Sizing the Stock Option Pool,” by Doug Collom, WSGR Entrepreneurs Report (Summer 2008)
- “The Option Pool Shuffle,” by Venture Hacks (April 10, 2007)
- Recommendations for Startup Employee Option Plans, by Scott Kupor of Andreessen Horowitz (July 26, 2016)

- “What Do Stanford GSB Founders Look Like?” by Mar Hershenson et al. (June 29, 2015)

Wednesday, September 11, 2019

Session 4: The Fundraising Landscape *Submission due: Case Memo #3*

- Sources of capital
- Alternative forms of fundraising
- Fundraising process and fallacies
- **Prepare Caselette #3:** Issues Encountered in Connection with First Round Financing

Session 4: Required Readings

- “Venture Capital Negotiations: VC versus Entrepreneur.” [Harvard Business School](#) (HBS# 9-800-170, March 2, 2000)
- "Financing New Venture" (HBS Note N9-811-093, March 28, 2011)
- “Convertible Notes in Angel Financing” (HBS Note 9-813-017, September 11, 2012)

Session 4: Supplemental Readings

- “Raising Money for Your Startup? Here Are 6 Things You Absolutely Must Do,” by Mark Suster (May 9, 2018)
- “Five Mistakes to Avoid While Fundraising for Your Startup,” by Ludovic Hureau (March 1, 2018)
- “How Much Should You Raise in Your VC Round? And What Is a VC Looking at in Your Model?” by Mark Suster (May 28, 2018)
- “So What Is the Right Level of Burn Rate for a Startup These Days?” by Mark Suster (February 15, 2016)
- “Due Diligence Reveals All,” AlwaysOn: The Insider’s Network (October 21, 2008)
- “How to Prepare for a Presentation to a VC,” by Carl Showalter, Opus Capital
- “How to Raise Money,” by Paul Graham (September 2013)
- “Why Raising Too Much Money Can Harm Your Startup,” by Mark Suster (June 30, 2016)
- “Startup Accelerators: The Industry and Its Current State in 2018,” by Angelique Moss (September 4, 2018)
- “10 Startup Accelerators Based on Successful Exits,” by Alejandro Cremades (August 7, 2018)
- “What’s the Best Way to Fund Your Startup—VC, Crowdfunding? Or Something New?” by Brett Hales (August 29, 2017)
- “Top Trends in Equity Crowdfunding,” by Jake Fisher (January 28, 2017)
- “Here’s How Regulation Crowdfunding Performed in 2016,” by Sherwood Neiss (January 11, 2017)
- “Regulation Crowdfunding Surpasses \$100 Million But Still Needs to Reform,” by Alon Y. Kapen (February 19, 2018)
- “How Crowd-Funding Is Changing Everything and What That Means for Your Startup” by First Round Capital (2017)
- “Bitcoin and Cryptocurrencies—What Digital Money Really Means for Our Future,” by Alex Hern (January 29, 2018)

- “Blockchain, Bitcoin, Cryptocurrency and ICOs—All You Need to Know in 10 Minutes,” by Bernard Marr (September 15, 2017)
- “Bitcoin Is the Greatest Scam in History,” by Bill Harris (April 24, 2018)
- “Venture Capital Investment in Blockchain and Crypto Up 280% in 2018, Report Shows,” by Marie Huillet (October 2, 2018)
- “Raising Your Seed Round from Top VCs? We’ve Got Some Good News and Some Bad News,” CBI Insights (July 1, 2015)
- “The Seeds Have Changed: An Epilogue,” by Manu Kumar (June 5, 2015; with June 10, 2015 attached)
- “What Is the Definition of a Seed Round or an A Round?” by Mark Suster (October 7, 2014)
- “How Funding Rounds Differ: Seed, Series A, Series B, and C…” Elad Blog (March 15, 2011)
- “What the Seed Funding Boom Means for Raising a Series A,” by Josh Kopelman (March 17, 2015)
- Terms for Series Seed Preferred Stock, Cooley Law Firm form (October 2017)
- “Bad Notes on Venture Capital,” by Mark Suster, Upfront Ventures (September 17, 2014)
- “Pros and Cons of Raising Seed Financing via Convertible Notes vs. Preferred Stock,” by Sundance Banks, WSGR Entrepreneurs Report (Q3 2013)
- “Frequently Asked Questions: Convertible Debt,” by Peter Werner of Cooley Law Firm
- “What is a Valuation Cap?” by Adam Lieb and Joe Wallin, Startup Law Blog (February 21, 2014)
- Term Sheet for Convertible Promissory Note Financing (valuation cap and discount), Cooley Law Firm form (October 2017)
- Convertible Note Financing Summary of Terms (valuation cap and discount), WSGR form (October 2017)
- Simple Agreement for Future Equity [SAFE] (valuation cap and discount), Y-Combinator form (October 2017)

Monday, September 16, 2019

Session 5: The VC Valuation Method

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

Session 5: Required Readings

- “A Note on Valuation in Private Equity 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 Readings

- “How Do VC’s and Angels Value a Company?” by Jeff Carter (August 8, 2014)
- “How Does an Early Stage Investor Value a Startup?” by Carlos Eduardo (undated)
- “How to Talk About Valuation When a VC Asks,” by Mark Suster (May 29, 2018)
- “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)
- “What Most People Don’t Understand About How Startup Companies Are Valued,” by Mark Suster of Upfront Ventures (February 24, 2016)

Wednesday, September 18, 2019

Session 6: Applying the VC Valuation Method (optional)
Submission Due: HBS Problem Set (Required)

- **Case Discussion:** The Venture Capital Method—Valuation Problem Set (HBS case # 9-396-090, October 5 1995)

Questions 1– 6 are due at the beginning of class

Monday, September 23, 2019

Session 7: Lecture on Term Sheets

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

Session 7: Required Readings

- “Venture Capital Negotiations: VC versus Entrepreneur,” [Harvard Business School](#) (HBS# 9-800-170, March 2, 2000)
- “The Impact of Dilution,” by Andy Rachleff (August 26, 2014)
- “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 7: Supplemental Readings

- “Control: The Critical Issue in Negotiating Financing Terms,” by Caine Moss, WSGR Entrepreneurs Report (Fall 2008)
- “VC Negotiation Tricks: Simplified Term Sheets and Post-Money Valuations,” by Elad Gil, Elad Blog (September 17, 2017)
- “6 Investment Term Sheet Mistakes Founders Make,” by RubiconLaw (December 5, 2017)
- “What Is It Like to Negotiate a VC Round?” by Mark Suster (June 5, 2015)
- “Dual-Class Stock: A Founder Favorite Faces Growing Investor Disapproval,” by Lianna Whittleton of Wilson Sonsini Goodrich & Rosati, Entrepreneurs Report (1H 2016)
- “Limit Dual-Class Structures Rather Than Shun Them,” by Scott Kupor (November 20, 2018)
- “Super Voting Stock: The Advantages and Pitfalls,” by Stradling law firm (October 3, 2018)
- “Price and Preference—Participating v. Non-Participating Preferred,” by Herb Fockler of Wilson Sonsini Goodrich & Rosati, Entrepreneurs Report (Q1 2015)
- “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)
- “Startup Accelerator Anti-Dilution Provisions; The Fine Print,” by Jose Ancer (June 21, 2015)
- “The Toxic Term Sheet: Founders Beware!” by John Backus (October 6, 2015)

- “On the Road to Recap: Why the Unicorn Financing Market Just Became Dangerous...for All Involved,” by Bill Gurley (April 21, 2016)
- “Want to Know How VC’s Calculate Valuation Differently from Founders?” by Mark Suster (July 22, 2010)
- Series A Preferred Memorandum of Terms, WSGR template (October 2017)

Wednesday, September 25, 2019

Session 8: Negotiating the Term Sheets

Submission Due: Case Memo #4

- Review and discuss caselette regarding term sheets
- **Prepare Caselette #4:** Liquidation Preferences and Anti-dilution Formulas (**Due at the beginning of class**)

Session 8: Supplemental Readings

- 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,” The Funded Founder Institute
- “Term Sheet for Series A Preferred Stock Financing,” NVCA Model Documents

Term Sheet Negotiation Assignment

- Materials explained

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 Founders or as VCs.

We will pair two VC teams against a single Founder team. Each Founder team will get term sheets that reflect initial offers from the two different VC teams. You will get a “backgrounder” document that provides background information for the assignment.

For the classes on **October 9 and October 14, 2019** 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 **Tuesday, October 8, 2019 no later than 12:00 noon** will be outlined in the materials that will be handed out to you.

Monday, September 30, 2019

Session 9: Analysis of a Term Sheet and Compensation practices

Submission Due: Case Memo #5

- Compensation Elements
- ISOs and NSOs
- Alternative forms of incentive compensation
- **Prepare Caselette #5:** Analysis of a Typical Venture Capital Term Sheet (**Post at the beginning of class**)
- **Your assignment:** The purpose of this caselette is issue spotting. The Summary of Terms depicted in the caselette is conventional in most respects, and as is true of most legal documents, the wording is precise. However, a number of terms have been deliberately revised in ways that would create serious issues either for the Company or the Investors – there are a number of “traps for the unwary” that have been dropped into this term sheet. To assist in this exercise, sections of the term sheet that have **not** been planted with any “traps” have been *italicized* and marked with [brackets]. Your assignment is to identify each of the 20 or so traps.
- **Please bring a hard copy of Caselette #5 to this class meeting**

Session 9: Supplemental Readings

- “A Counterintuitive System for Startup Compensation,” by First Round Capital, First Round Capital (November 2014)
- “Demystifying 409A Valuations,” Parts 1 and 2, by Shri Bhashyam (November 2015)
- “Employee Equity: How Much?” by Fred Wilson (November 22, 2010)
- “Five Compensation-Related Mistakes Startups Make (And Should Avoid),” by Caine Moss of WSGR, Venture Beat (February 9, 2010)
- “How We Explain Stock Options to Team Members & How Much Money They Would Make,” by Joel Gascoigne (November 3, 2015)
- “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)
- Model Equity Incentive Plan (January 2014)

Wednesday, October 2, 2019

Session 10: Corporate Governance and Exit

Handout: Alantec case

- Board members’ duty to stockholders
- Composition and roles of the board of directors in the private company
- Sarbanes Oxley and the private company
- Exit Strategies

Session 10: Required Readings

- “Rites Of Passage,” by Pascal N. Levensohn (January 2006)
- “A Note on the Initial Public Offering Process,” (HBS Note # 9-200-018, July 20, 2007)

Session 10: Supplemental Reading

- “The Basic Responsibilities of VC-Backed Company Directors,” by Working group on Director Accountability and Board Effectiveness (January 2007)
- “Corporate Governance and Disclosure Practices of Venture-Backed Companies In U.S. Initial Public Offerings,” Wilson Sonsini Goodrich & Rosati (July 2011-June 2012)
- “The Fiduciary Duties of Founders,” by Silicon Hills Lawyer (January 13, 2016)
- “The Board Works for the Common Stock,” by Silicon Hills Lawyer (February 7, 2018)
- “11 Quick Tips to Get More Value Out of Your Board,” by Mark Suster (August 15, 2017)
- “Pre-Series A Startup Boards,” by Jose Ancer, Silicon Hills Lawyer (May 17, 2017)
- “How Do You Compensate Directors of Startup Companies?” by Paul Jones (March 7, 2013)
- “Board Compensation: 3 Charts on How Companies Pay Non-Investor Directors,” by Dana Olsen of Pitchbook (June 22, 2017)
- “3 Considerations for Advisory Board Compensation,” by Tony Lettich (June 28, 2017)
- “CEO Playbook for Early Stage Board Meetings,” by Geoff Yang, Red Point (August 2, 2013)
- “The Secret to Making Board Meetings Suck Less,” First Round Review (October 18, 2013)

Monday, October 7, 2019

Session 11: Guest Speaker – Amir Goldman, Founding Partner SGEP

<https://sgep.com/the-team/amir-goldman/>

Wednesday, October 9, 2019

Session 12: Class Presentations on Term Sheet Negotiations

During this session, teams will present their negotiated term sheets and discuss the issues they ran into during the negotiation. Each team has been allocated **12 minutes** for its presentation.

Submissions are due by Tuesday, October 8 no later than 12:00 noon

- **Each of the investor teams and founder teams will prepare a PowerPoint presentation, which includes the final proposed valuations as well as detailed commentary on the content and process of the term sheet negotiations.**

- Founder teams additionally provide a detailed summary of the final agreement using the format outlined in the Negotiation Instruction handout that will be distributed in class.
- Investor teams additionally provide detailed valuation calculations

Monday, October 14, 2019

**Session 13: Class Presentations on Term Sheet Negotiations (continued)
(and a short review session which will include sample Quiz questions)**

Wednesday, October 16, 2019

Session 14: Quiz

QUIZ

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