

Update: August 2, 2011

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

Venture Capital and Entrepreneurial Management

**MGMT 264 - Fall 2011
JMHH F60**

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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, although perhaps more resilient than other sectors in the U.S. economy, appear to be going through a number of structural changes as a result of the economic challenges that have been presented since the fall of 2008. Following the dramatic economic upheaval in 2008/2009, there is widespread concern about the future of venture capital as an industry as it faces a range of threatening obstacles. More than ever, the venture capital industry today feels fragile. 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.

The course, which is pragmatic in its orientation, will take all of these factors into consideration from the different and distinct perspectives of both the entrepreneur and the venture capital investor. As well, I 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 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 I 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.

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.

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 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 eRoom for our course. Lecture notes, course materials that are not copyrighted by a third party and periodic announcements will be posted on this site. The eRoom can be accessed through WebCafé. The URL is:

<https://webcafe.wharton.upenn.edu/eRoom/mgmtb/264-fa11-1>

- All copyrighted readings are found on Study.net (you should receive an email with login information from Study.net at the beginning of the semester). Please contact customerservice@study.net with any login issues.

http://www.study.net/r_mat.asp?crs_id=30016946

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

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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 class readings have been split between two sites: Study.net and WebCafé. All third party copyrighted materials are found on Study.net, all other readings are found on the WebCafé. This is meant to minimize the cost of students obtaining reading materials. Please note that the readings are further 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 occurrence (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 handed out in class 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; in addition, these teams will be used in the term sheet negotiation assignment to be handed out in **Session 16**. Choose your teammates carefully – changes will not be allowed once your study group team has been formed. You are encouraged to form your study group before our first session.

Student Grades

The final course grade will be computed as follows:

- | | |
|--|-----|
| • Classroom Participation | 20% |
| • Case Problem Set Memos | 20% |
| • 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, 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 name card in each class to facilitate teacher/student interaction**. Note: Failure to display your name card may result in not getting any credit for the class session in which your name card was not displayed.

Case write-ups and other assignments: For each of the assigned Caselettes or problem set, the study group team will turn in at the beginning of class (or post in the Web Café before class) 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 4 pages in length. The 4-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 the memo. Write these as if you were writing a recommendation to the major decision-maker in the case.

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Write-ups of the Caselettes and problem sets will not be accepted after the class has met. **Credit will only be given to write-ups which are submitted before, or 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.**

You are required to submit the deliverables of the negotiation exercise the evening before the date of the term sheet negotiation debriefing class meeting. As well, all team members are required to participate in the assigned presentation.

QUIZ: Will be held during session 20, November 16, 2011 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 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 the WebCafe prior to the beginning of the session in which the lecture notes apply.

Required Texts

Students are expected to read all required texts—these are split between the Webcafe and Study.net websites to reduce the course material costs to students. All third party copyrighted readings are available on Study.net.

http://www.study.net/r_mat.asp?crs_id=30021139

Proprietary readings and readings available through the Penn library databases (this does not include Harvard Business School materials) can be found in the class WebCafé:

<https://webcafe.wharton.upenn.edu/eRoom/mgmtb/264-fa11-1>

Learning Environment

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 who leave the class while it is in session will be readmitted at the break.
- Students display their nameplates.
- All phones and electronic devices are turned off.

Class Cancellation and Make-up Days:

In the unlikely event that a class must be canceled, students will be contacted by e-mail. Generally, if a make-up class can be scheduled, it will be held on the preceding or following Friday in the AM. Make-up classes will be video recorded and posted.

Communicating with the Instructor

The best way to contact me is by e-mail. I will make every effort to respond promptly. If you want to see me in person you will find it most efficient to coordinate a meeting with me. Alternatively, you may also come to my office (SH-DH 2012) during my office hours which are on Monday 3:00 - 4:00 pm throughout the semester.

VI. Course Outline At-A-Glance MGMT 264 Fall 2010				
Session Number	Date	Topic	Case/activity	Submissions Due
1	W 9/7/2011	Course Introduction and Overview		
2	M 9/12/2011	The VC Industry Today - An industry in transition		
3	W 9/14/2011	VC Firm Structure and Activities		
4	M 9/19/2011	Evaluating Investment Opportunities	Chemdex	Prepare case
5	W 9/21/2011	Evaluating Investment Opportunities -- Case Analysis	Chemdex	Post PowerPoint slides
6	M 9/26/2011	Evaluating Investment Opportunity – The business plan	IBAS Case	Read the IBAS plan. Be prepared to evaluate it in class
7	W 9/28/2011	Organizational Issues in the Formation of a Startup	Caselette # 1	Case Memo
8	M 10/3/2011	Guest Speaker – TBD		
9	W 10/5/2011	Initial Capitalization in the Formation of a Startup	Caselette # 2	Case Memo
	M 10/10/2011	NO CLASS: Fall Break		
10	W 10/12/2011	Valuation Methodologies	HBS Problem set case # N9-396-090	Prepare Questions 1 - 2
11	M 10/17/2011	Valuation Methodologies (continued)	HBS Problem set case # N9-396-090 (continued)	Prepare Questions 3 - 6
12	W 10/19/2011	Fundraising Challenges: The Entrepreneur's Perspective	Caselette # 3	Case Memo
13	M 10/24/2011	Lecture on Term Sheets		
14	W 10/26/2011	Liquidation Preferences and Price Protection Anti Dilution	Caselette # 4	Case Memo
15	M 10/31/2011	Guest Speaker – TBD		
16	W 11/2/2011	Analysis of a Term Sheet Hand out materials for negotiation session	Caselette # 5	Case Memo
17	M 11/7/2011	Formal Review Session with the TA		
18	W 11/9/2011	Optional Q&A Session with the TA		
19	M 11/14/2011	Integrating Valuation with Term Sheet Structure	Apex A	Case Memo

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20	W 11/16/2011	QUIZ		
21	M 11/21/2011	Term Sheet Debriefing Session	Teams must be ready to present their negotiated term sheet	See negotiation instructions for the content and timing of your deliverables
	W 11/23/2011	NO CLASS		
22	M 11/28/2011	Compensation Practices in Venture-Backed Companies		
23	W 11/30/2011	Corporate Governance - The role and composition of the BOD in a venture backed firm		
24	M 12/5/2011	Course Summary		

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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, September 7, 2011**Session 1: Course Introduction and Overview**

- Course introduction
- Student introduction and team formation
- An overview and brief history of the venture capital industry and its role in fostering the growth firms

Required Reading

- "The VC Shakeout" by Joseph Ghalbouni and Dominique Rouziès, Harvard Business Review (Jul/Aug 2010)

Monday, September 12, 2011**Session 2: The VC Industry Today – An Industry in Transition**

- Venture Capital objectives and investment strategies; role of the general partners
- Current industry trends

Required Reading

- "A Note on the Venture Capital Industry," Harvard Business School (July 21, 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)
- "Will the IPO Market Make a Comeback?" by Aaron Gershenberg and Jason Liou, Venture Capital Update (October 2009)

Supplemental Materials

- "Grim Numbers Point to the End of the Venture Capital Era," by Chris O'Brien, Mercury News (August 25, 2010)
- "Venture Funding Shrinks Leaving Scores of 'Walking Dead' Firms," by Ari Levy, Bloomberg (October 11, 2010)
- "The Rebirth of VC (really!)," by Roger Ehrenberg, Fortune (October 7, 2010)
- "Ten Faulty Assertions About the Venture Industry," by Mark Heesen of the National

Venture Capital Association, Venture Capital Journal (March 2010)

- "Veterans See Contraction, Upstarts See Opportunity in Global VC Survey," by Mark Heesen of the National Venture Capital Association, Venture Capital Journal (August 2010)

Wednesday, September 14, 2011**Session 3: VC Firm Structure, and Activities**

- Venture Capital Funds: Structure, activities and practices

Required Reading

- Chapters 1 & 2. "The Economics of the Private Equity Market," by Fenn, Liang & Prowse (December 1995, The Board of Governors of the Federal Reserve System)
- "Does Venture Capital Foster the Most Promising Entrepreneurial Firms?" by R. Amit, L. Glosten & E. Muller, California Management Review, 32 (3): 102-111, 1990

Supplemental Materials

- "Exit Timing Still Vexes VCs," by Joanna Glasner, Venture Capital Journal (October 2010)
- "Growth Spurt," by Tom Stein, Venture Capital Journal (October 2010)
- "New Stock on the Block," Financial Times (October 29, 2010)
- "Tech Start-ups Not Eager for IPOs," by Jon Swartz, USA Today (October 29, 2010)
- "The Long and Winding Road," by Constance Loizos, Venture Capital Journal (August 2010)
- "The Newest Information Demands by LPS," by Vicky Meek, Venture Capital Journal (Support Services Report 2010)
- "Venture Funds Sweetening the Terms," Wall Street Journal (November 23, 2009)

Monday, September 19, 2011**Session 4: Evaluating Investment Opportunities****Required Reading**

- Chemdex.com (HBS Case 9-898-076, revised: June 22, 1999)

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- “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)

Chemdex Case preparation question:

1. How would you describe the opportunity that David Perry identified? **(Due at beginning of class)**

Wednesday, September 21, 2011**Session 5: Evaluating Investment Opportunities – Case Analysis****Required Reading**

- Chemdex.com (HBS Case 9-898-076, revised: June 22, 1999)

Chemdex Case preparation questions:

1. Which criteria would you use in general for assessing an entrepreneurial opportunity? What would you – as an entrepreneur and as an investor - look for in a start-up business? **Please post your PowerPoint slide on our WebCafé site in the Assignment Folder.**
2. Imagine you are considering an investment in Chemdex in 1997. How would you evaluate this specific opportunity? **Please post your PowerPoint slides on our WebCafé site in the Assignment Folder. (Due at the beginning of class)**

Monday, September 26, 2011**Session 6: Evaluating Investment Opportunities—The Business Plan**

- IBAS Case — see case assignment in the eRoom **(due at the beginning of class)**

Required Reading

- “How to Write a Great Business Plan,” by W. Sahlman, *Harvard Business Review*, July-Aug 1997

Wednesday, September 28, 2011**Session 7: Organizational Issues in the Formation of a Start-Up**

- Forming the company; creating a capital structure in preparation for a venture financing

- Intellectual property: the importance of getting it right
- Founders’ stock and basic equity incentive arrangements
- **Prepare Caselette # 1: Organizational Issues in the Formation of a Start-Up (Due at the beginning of class)**

Required Reading:

- “The Legal Forms of Organization,” Harvard Business School (February 19, 2004)
- “The Legal Protection of Intellectual Property,” Harvard Business School (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 Materials

- “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)
- “Top 10 Intellectual Property Tips for Early-Stage Companies,” by Peter Eng, WSGR Entrepreneurs Report (Summer 2008)

Monday, October 3, 2011**Session 8: Guest Speaker TBD****GUEST SPEAKER TBD****Wednesday, October 5, 2011****Session 9: Initial Capitalization in the Formation of a Startup**

- **Prepare Caselette #2: Considerations in establishing the initial capitalization of the start-up (Due at the beginning of class)**

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Required Reading

- “Angel Investors Spread Their Wings,” by Scott Duke Harris, Mercury News (August 31, 2010)
- “Super Angels’ Fly In to Aid Start-Ups,” by Pui-Wing Tam and Spencer E. Ante, Wall Street Journal (August 16, 2010)
- “VC ‘Super Angels’: Filling a Funding Gap or Killing ‘The Next Google’?”, Knowledge@Wharton (September 1, 2010)

Monday, October 10, 2011**NO CLASS, Fall Break****Wednesday, October 12, 2011****Session 10: Valuation Methodologies**

- 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)**
 - Prepare Questions 1 & 2 (**Due at the beginning of class**)

Required Reading

- “A Note on Valuation in Private Equity Settings,” (HBS # 9297050, April 2002)
- “Valuation: What It’s Worth,” VentureEdge 2001

Supplemental Materials

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

Monday, October 17, 2011**Session 11: Valuation Methodologies (continued)**

- **Case Discussion: The Venture Capital Method – Valuation Problem Set (HBS case # N9-396-090) continued**

- Prepare Questions 3 – 6 (**Due at the beginning of class**)

Required reading

- “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)

Wednesday, October 19, 2011**Session 12: Fundraising Challenges – The Entrepreneur’s Perspective**

- Raising Capital; the role of the business plan; fundraising strategies
- Due diligence: content and process
- **Prepare Caselette #3: Issues encountered in connection with First Round Financing (Due at the beginning of class)**

Required Reading

- “New Venture Financing,” Harvard Business School (HBS note # N9-802-131, Aug. 1, 2006)
- “Meeting with the Venture Capitalist,” by W. Kingsley in Pratt’s Guide to Venture Capital Sources, Stanley Pratt & Jane Morris (1987)
- “Non-Traditional Financing Sources,” by G. Sneddon and J. Turner in Pratt’s Guide to Private Equity Sources, by Thomson Venture Economics (2003)
- “Strategic Investors in the Early-Stage Company,” by Allison Spinner, WSGR Entrepreneurs Report (Winter 2007)

Supplemental Materials

- “Does My Start-Up Qualify for Venture Debt Financing?” by John Mao, WSGR Entrepreneurs Report (Summer 2008)
- “Due Diligence Reveals All,” AlwaysOn: The Insider’s Network (October 21, 2008)
- “Fundraising Workshop,” Deloitte & Touche
- Sample executive summaries

Monday, October 24, 2011**Session 13: Lecture on Term Sheets****Required Reading**

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- "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)
- "Structuring the Financing," by Stanley C. Golder in Pratt's Guide to Venture Capital Sources, Stanley Pratt & Jane Morris (1987)
- "Venture Capital Negotiations: VC versus Entrepreneur," Harvard Business School (March 2, 2000)

Supplemental Materials

- "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)
- "Perfecting Your Pitch," by Brad Feld, WSGR Entrepreneurs Report (Winter 2008)
- "Seed is the New Series A for VCs," by Caine Moss of WSGR, VentureBeat (August 24, 2009)
- "The Fundraising Process: Best Practices for Entrepreneurs and Directors," by Robert Housley and Evan Kastner, WSGR Entrepreneurs Report (Summer 2009)
- "The Nuts and Bolts of Recaps and Pay-To-Play Financings," by Timothy Harris, Venture Capital Journal (May 2010)
- First Amended and Restated Articles of Incorporation
- 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)
- "Vetting Entrepreneurs Is More Art Than Science," by Constance Loizos, Venture Capital Journal (July 2010)
- "Revenue Loan Offers Alternative to VC," by Constance Loizos, Venture Capital Journal (July 2010)
- "Meet Your New Competition," by Tom Stein, Venture Capital Journal (July 2010)
- "Left Out," Venture Capital Journal (July 2009)

Wednesday, October 26, 2011**Session 14: Liquidation Preferences and Price Protection Anti Dilution**

- **Prepare Caselette # 4: Liquidation Preferences and Anti-dilution Formulas (Due at the beginning of class)**

Monday, October 31, 2011**Session 15: Guest Speaker – TBD****GUEST SPEAKER TBD****Wednesday, November 2, 2011****Session 16: Analysis of a Term Sheet**

- **Prepare Caselette #5: Analysis of a Typical Venture Capital Term Sheet (due at the beginning of class)**
- **Hand out materials for negotiation session**

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 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 **Session 21 on Monday, November 21, 2011**, 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 **Monday, November 21, 2011**, will be outlined in the materials which will be handed out to you.

Monday, November 7, 2011**Session 17: Formal Review Session with TA****Wednesday, November 9, 2011****Session 18: Optional Q&A Session with TA****Monday, November 14, 2011****Session 19: Integrating Valuation with Term Sheet Structure**

- **Case Study: Prepare the Apex Investment Partners (A): April 1995 (HBS # 9-296-028, Nov. 17, 1997)**
- **Case preparation questions:**
 1. How has AccessLine financed itself to date? Why have they chosen this strategy? What have been the implications for the firm?
 2. Why does Dan Kranzler regard Apex Investment Partners as an attractive source of venture capital? Why does Apex find AccessLine to be an attractive investment?
 3. How attractive are the terms that AccessLine has proposed to Apex for the Series B financing? What are the key differences from those in Series A financing round? What issues, if any, should concern Apex?
 4. What is an appropriate valuation for AccessLine? Do analyses using the comparable method, discounted cash flow method, and the "venture capital" method. Do these methods suggest similar or different values for AccessLine?
- **Case memo due at the beginning of class.** Be prepared to be called upon to do the valuation.

Wednesday, November 16, 2011**Session 20: QUIZ**

Bring your calculator

Monday, November 21, 2011**Session 21: Term Sheet Debriefing Session**

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 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.**
- **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.**

Wednesday, November 23, 2011**NO CLASS****Monday, November 28, 2011****Session 22: Compensation Practices in Venture-Backed Companies**

- 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

- 2010 Equity Incentive Plan
- 2010 Stock Option Agreement
- Equity Compensation Overview Memorandum (WSGR)
- "Interesting Approaches to Unique Problems: Partial Cash-Out of Founders' Stock," by Doug Collom, WSGR Entrepreneurs Report (Fall 2007)

Wednesday, November 30, 2011**Session 23: Corporate Governance – The Role and Composition of the BOD in a Venture-Backed Firm**

- The roles and composition of the BOD
- Overcoming difficult times

Required Reading

- "After The Term Sheet," by Dennis T. Jaffe and Pascal N. Levensohn (November 2003)
- "Rites Of Passage," by Pascal N. Levensohn (January 2006)

Supplemental Reading

- "A Brave New Board Era," Venture Capital Journal (March 2006)
- "How to Turn A 'Bored' Meeting Into A Real Board Meeting," Venture Capital Journal (August 2006)
- "The Basic Responsibilities of VC-Backed Company Directors," by working group on Director Accountability and Board Effectiveness (January 2007)
- "Venture-Backed Boards More Active, Better Aligned Amidst Financial Crisis," Dow Jones VentureSource (November 10, 2009)

Monday, December 5, 2011**Session 24: Course Summary**