VENTURE CAPITAL

I. WHO ARE THE VC'S
   A. WHAT IS THEIR FOCUS; STAY WITHIN THEIR SCOPE; CONTEXT AND SPACE; AS WELL AS EARLY STAGE OR LATE STAGE; GEOGRAPHY; SOME FIRMS HOOK IN W/ LOCALITIES; SIZE OF INVESTMENTS.
   B. REPUTATION; HAVE THEY SUCCESSFULLY INVESTED IN START UPS PREVIOUSLY; TRACK RECORD; LOOK AT THE SIZE OF THE FUND; LOOK AT THEIR INVESTOR PROFILE; ARE THEY HANDS ON OR HANDS OFF.
   C. LP STRUCTURE; WANT YOU TO BE A C CORP SO YOUR LOSSES DON'T PASS THRU.
   D. MOTIVATION; MONEY; CAN YOUR PLAN DELIVER THE RATE OF RETURN.

II. LAWYERS
   A. MISTAKES COST YOU; DO IT RIGHT; FIND LAWYER W/ TRANSACTIONAL EXPERTISE AS WELL AS TECHNICAL COMPETENCE; FIND A FIRM THAT CAN FLOAT YOUR PLAN; REPUTATION IS IMPORTANT.

III. WHERE DO YOU BEGIN
   A. BUSINESS PLAN
      1. TECHNOLOGY OR SERVICE HOOK
      2. POTENTIAL MARKET SIZE; BE SPECIFIC ABOUT TARGET SIZE
      3. COMPETITORS AND COMPARABLES
      4. RESEARCH AND DEVELOPMENT
      5. FINANCIAL PROJECTIONS; WHEN WILL YOU BE PROFITABLE
      6. MANAGEMENT TEAM
   B. BEGIN SHOPPING YOUR DEAL
      1. YOU MUST GET A FACE TO FACE MEETING
      2. DUE DILIGENCE; SEND IN TECHNOLOGIST TO REVIEW YOUR CODE, LAWYERS TO REVIEW CORP. STRUCTURE
   C. VALUATION
      1. USE EVERYTHING YOU CAN TO UPWARDLY ADJUST YOUR VALUATION
      2. DICTATES THE PRICE PER SHARE

IV. STOCK AND CAPITAL STRUCTURE
   DEBT
   PREFERRED C
   PREFERRED B, EITHER SENIOR OR PARI PASSU.
   PREFERRED A
   COMMON
   
   PPS = PRE- $ VALUATION
   CAPITALIZATION
   INCREASE IN OPTION POOL; VC WILL TRY TO GET YOU TO TAKE THIS PRE-MONEY.
B. Dividends/Documents → The term sheet turns into these docs:
   1. Charter/Certificate of Incorporation
   2. Purchase Agreement
   3. Investors Rights/Reg. RTS
   4. Stockholders/RCFR

C. Dividends
   1. Dividends accrue annually but are never paid
   2. If a dividend is declared for B, C will get money too.
   3. This is purely hypothetical

D. Liquidation Preference
   1. Preferred = Amount Invested plus Accrued Dividends or Convert to Common Stock
   2. Participating Preferred → They get the amount invested plus accrued dividends and can convert → "double dip"
   3. Entrep: Negotiate a cap

E. Conversion
   1. Share of Preferred = DIP (Original Issue Price)
   ACV (Applicable Conv. Value)

   ACV: Two ways:
   a) Full Ratchet: New price per share
      This does not account for how much dilution has occurred.
   b) Weighted Avg.: \( \frac{(P_1 \times Q_1) + (P_2 \times Q_2)}{Q_1 + Q_2} \)

   \( P_1 \) → Last price paid
   \( P_2 \) → New price x New shares
   \( Q_1 + Q_2 \) = Total capitalization after

2. B' conversion is automatic at IPO, although VCs have leverage over when you go public. If you're only raising $20M, they may not sign on.
   → Double dip goes away.