Review Questions for Swanson and Baird
Chapters 11, 12

[Note to students]: Because we are getting crimped for time, I want you to read my comments about each chapter below and then the chapter. We will still discuss these in class, but this will streamline that effort. Please don't avoid reading this material just because you know that you won't be taking a test. It's useful information so please find the time to read it carefully.

What I liked about these chapters...

Rule #1: Raising funds from professionals is the hardest and most stressful thing that you will ever do in your life.

Ch 11 Funding Issues

- Initial cash requirement may be a little high ($15K mo. per employee) but maybe not.

- Table 11.1 on SEC rules is instructive and reminds you of why you want to use a lawyer for everything except the simplest round, and there too if possible.

- Material on corporate investors, although simplistic, is something worth remembering.

- General VC advice
  
  Limit to a few
  Do your research first
  VC directory not a bad idea but if you can just find out who they are you can research them through their web sites.
  Unsolicited business plans have 0 chance.
  NETWORKING AND GETTING TO THE INSIDE IS KEY
  NDAs are bullshit, no one will sign them

- Skepticism scattered throughout is somewhat warranted ... not everyone likes working with VCs,

- Review sidebars 11.2, 11.3 and 11.5.

Ch 12. Term Sheets ... why these are negotiated by CFO (finance guy)

Rule #1: When reviewing term sheets, the devil really is in the details.
This is probably the most important chapter in the book if the company is going to raise money.

**Note: Special Assignment** – Read Sidebar 12.8 the Term sheet example and see if it is favorable when compared to standards introduced in the text.

- Understanding the concept of dilution is essential
- Pre-money valuation vs. post-money valuation
- Milestone financing
- **Liquidation preferences ...**
  - *non-participating:* they have first rights to get their money back but nothing beyond that (but also have the right to convert to common if shared rights are worth more than their original investment.
  - *participating:* they have the right to get their money back and then after that share further distribution proportionate to their ownership.
  - *multiple participating:* they may get 2X or 3X before anyone else gets anything.
- Redemption rights: (Undesirable – forces the company to buy the shares back in the future).
- Various conversion issues (convertible debt, exit, dilution protection, price protection from a down-round, weighted average anti-dilution protection, the full ratched ... which simply gives more stock to prior investor in a down round).
- Registration rights ... when do you get to sell your stock if you IPO?