

WIGGIN **AND** DANA
Counsellors at Law

**Frank J Marco
and
Paul A. Hughes**

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Negotiation of a Venture Capital Term Sheet

CTech

The Venture Transaction

- Long-term cooperative relationship
- Stages of Investment
 - **Getting to Know You**
 - **Due Diligence and Closing**
 - **Life of the Investment**
 - **Liquidity**
- Key Concepts for VC Investments
 - **Highly Structured**
 - **Downside Protection**
 - **Upside Equity Rights**
 - **Liquidity Rights**
 - **Control**

The Venture Transaction - Process

Day 1.....30.....60.....90.....120.....150.....Day 180

- Investors Meeting
 - Initial Business Due Diligence
 - Term Sheet/ LOI
 - Business/Legal Due Diligence
 - Documentation and Closing

The Venture Transaction – Process

(continued)

- Investor Meetings
 - Focus the Search
 - Referrals Best
 - Elevator Pitch
- Initial Business Due Diligence
 - Feasibility of Business Model
 - High Level Technology Review
 - Market Analysis
 - Management, Management, Management

The Venture Transaction – Process

(continued)

- Term Sheet/LOI
 - Basic Terms
 - Non-binding, but see “no-shop” or “exclusivity” and fees
- Valuation, Valuation, Valuation
- Business and Legal Due diligence
 - Intellectual Property
 - Team
 - Business Model Assumptions
 - Business Partners/Customers
- Documentation and Closing
 - Practical Approach – Battle v. War
 - Don’t Retrade from Term Sheet

The Venture Transaction – Key Terms

- Preferred Security
 - Debt v. Equity
 - Dividends
 - Accruing/When Paid
 - Liquidation Preference
 - “Participating Preferred”
 - Conversion/Anti-Dilution Adjustments
 - Proportional for splits/combinations
 - Price protection: full ratchet/weighted average (formula)
 - Carve outs
 - “Pay to Play”

The Venture Transaction – Key Terms

(continued)

- Control
 - Board of Directors
 - “Protective Provisions”
 - Affirmative and Negative Covenants
 - Preemptive Rights
 - Rights of Refusal
- Liquidity Rights
 - Registration Rights
 - Redemption Rights
 - Drag Along
 - Tag Along