

Crossing the Chasms

ILTA '09

Knowledge Management Peer Group Track

Learning Goals

- Via case studies, ideas for projects that:
 - *Benefit the firm (and you)*
 - *Facilitate knowledge-sharing*
 - *Involve cross-departmental collaboration*
- Checklist for successful projects

Top Takeaway

- There will be two chasms
 - *Business chasm*
 - *Political chasm*
- Cross them through alignment with both

Case Study #1: Orrick

Case Study #2: Akin Gump

Overview of AG Experience

- Homegrown collaborative tool
- Automated tracking of individual and engagement experience
- Manual tracking of significant matters
- Reporting features aid proposals and submissions

A Three-in-One Endeavor

■ Marketing

- *Access experience data instantly*
- *Simplify proposal generation*

■ Accounting/Business Acceptance

- *Reduce custom data queries by exposing more*
- *Create front-end mechanism to change/supplement information at the practice level*

■ Practice Management

- *Know who's doing what*

Challenges and Solutions

- Challenge: Data entry was too difficult
 - *Reduced marketing's ability to capture data quickly; disenfranchised users*
 - *Precluded lawyer participation in data capture*

Solution: Contemplate needs and pressures of intended users in building technical specs

- *Faster, cleaner UI was later built*
- *Integrate into portal – make it top of mind*

Challenges and Solutions

- Challenge: We Built It But They Didn't Come

- *Core features were under-utilized, including reports intended for use with proposals*
- *Minor development choices created major user problems*

- Solutions:

- *Ensure each constituency's ownership of its data*
- *Validate proposed solutions during development*

Challenges and Solutions

- Challenge: Tighten integration to bring in all parties
 - *Example: Could associate evaluation process be launched from the singular matter database?*
- Solution: Sweeten the deal for new collaboration points
 - *Answer with clarity to each partner: “What’s in it for me?”*

Takeaways

- Committed, continuous leadership is the greatest indicator of a project's success.
- Design the tool's function to the user - never assume that user behavior will adapt to the technology.
- Know what's driving all constituencies - and confirm you're delivering it.

Case Study #3: Wilson Sonsini

Business Alignment

Overall approach

Goals	Big-budget Solutions	2009 KM Solutions
<ul style="list-style-type: none">■ Develop business■ Deliver well■ Collect fees	<ul style="list-style-type: none">■ Expensive dedicated resources	<ul style="list-style-type: none">■ “Windmills” – minimal changes to existing resources

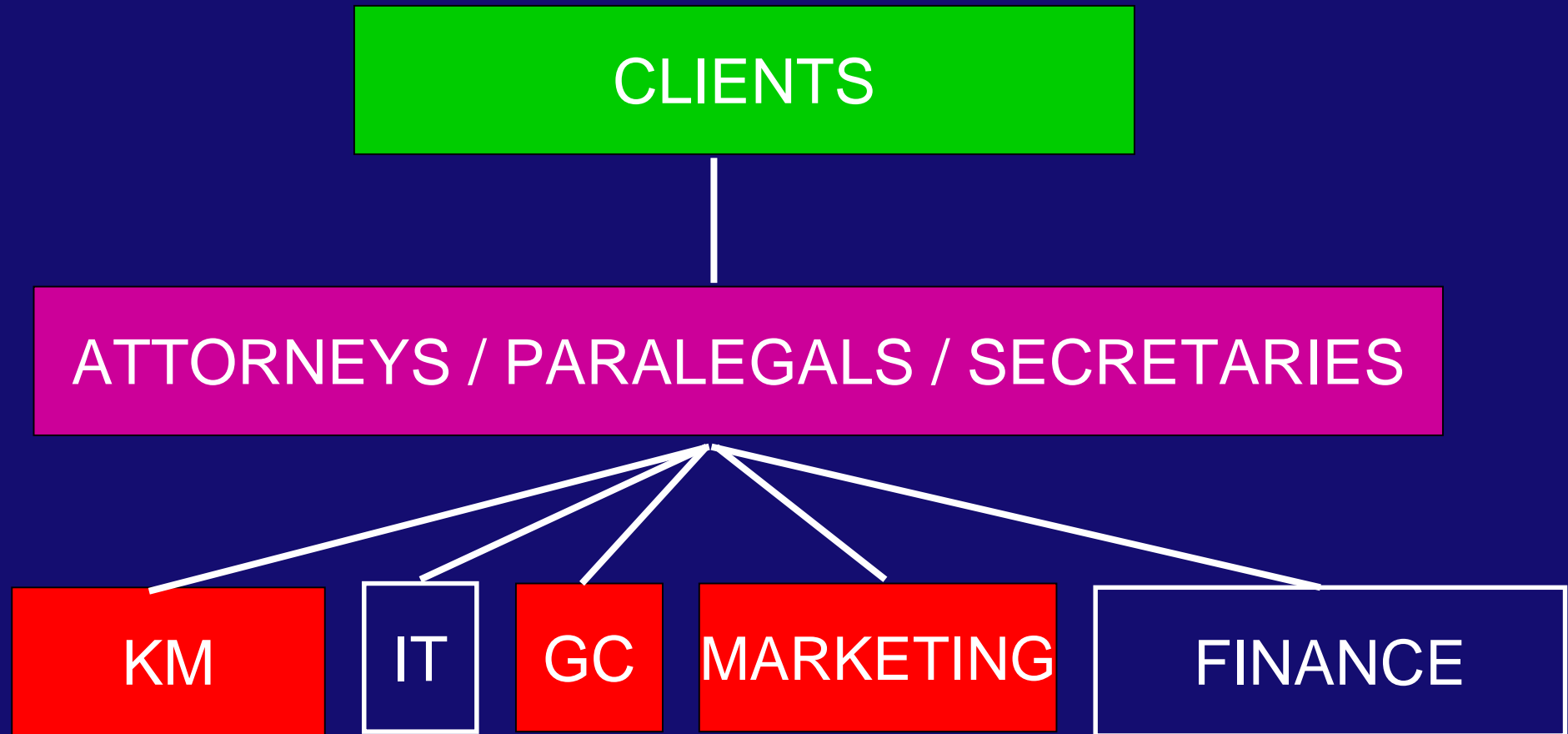
Business Alignment

Start-up practice, phase 1

Goal	Big-budget Solution	2009 KM Solution
<ul style="list-style-type: none">■ Build firm brand and generate leads	<ul style="list-style-type: none">■ Large sponsorship and events spend	<ul style="list-style-type: none">■ Repackage and publish deal data as “state of the market”

Political Alignment

Start-up practice, phase 1



The Entrepreneurs' Report

THE ENTREPRENEURS REPORT Private Company Financing Trends

W&R Wilson Sonsini Goodrich & Rosati
PROFESSIONAL CORPORATION

Winter 2008

Insight Corner:

Strategic Investors

By Allison Spinner, Partner, Palo Alto Office. Email: aspinner@wsgcr.com

Many large public companies have established affiliated venture capital funds or divisions to invest in technology startups. In many cases, the investment is made in conjunction with or contemplation of a commercial relationship between the parties. The value proposition is often quite attractive on both sides. The strategic investor has an opportunity to invest in an early-stage company with potential for high growth, while getting a foot in the door to develop or enhance a commercial relationship that may lead to a long-term partnership. The startup hopes that the value provided by a strategic investor will far exceed the funds provided, as the relationship may be tied to a commercial deal that could drive the startup's revenues and give it credibility and exposure in the marketplace. The startup may also seek to

continued on page 10 . . .

In This Issue

Insight Corner Page 1
Strategic Investors

The Basics Page 4
Liquidation Preference

Quarterly Deal Highlights . . Page 5
Corporate Structure Considerations
For Companies Doing Business In China

Regulatory Developments . . Page 8
SEC Amends Rule 144

The Data Set* January 1, 2005 – December 31, 2007

DISTRIBUTION BY SERIES. In 2007, the percentage of all Wilson Sonsini Goodrich & Rosati financings in the data set that consisted of Series A rounds remained the same as in 2006. In the last quarter of 2007, however, the percentage of Series A rounds increased from 39% in the prior quarter to 43%, while the percentage of equity financings consisting of Series B rounds declined in the same periods from 29% to 23%. For the purposes of this report, data relating to Series A rounds of financings predominantly refers to early stage investments by institutional investors (i.e., both organized angel groups as well as traditional venture capital firms). Angel rounds, where they are identified in the charts, typically include individual seed investors.

Although each successive round of financing may have its own significance in terms of industry trends, we interpret the 2007 fourth quarter surge in seed and Series A rounds within our database as both a key indicator of the health of the industry in general and confirmation that the venture capital community is active in seeking out and financing new companies and technologies.

	2005	2006	2007	Q1 07	Q2 07	Q3 07	Q4 07
Series A (Seed)	44%	41%	41%	40%	42%	39%	43%
Series B	25%	26%	25%	27%	25%	28%	23%
Series C and later	29%	31%	32%	32%	31%	34%	33%

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* The data in our report are from seed and venture financings in which WSGR represented either the company or the investor. This data consist of more than 600 financings in each of 2005, 2006 and 2007. Data are reported on financings throughout the United States, without distinction by geography.

In our descriptions of these data, we refer to the average numbers for certain periods. We use a truncated average, discarding from the calculation the highest and lowest figures for the period (and in some cases the top and bottom two figures). This eliminates from the calculation of the average the effect of financings that in our judgment are unusual and therefore should be excluded.

The moving averages on pages 2-3 are based on 120-180 day intervals.

THE ENTREPRENEURS REPORT Private Company Financing Trends January 1, 2005 – December 31, 2007

W&R Wilson Sonsini Goodrich & Rosati
PROFESSIONAL CORPORATION

The Data Set

(continued from page 2)

AMOUNTS RAISED – BY SERIES. Equity capital raised by series, when considered in the context of the average pre-money valuation data discussed above, provides clear guidance as to the amount of equity of the company that is typically involved at each stage of financing. For example, the average amount raised for Series A financings in 2007 (including for the fourth quarter of 2007) was \$6.0 million. Based on the average pre-money valuation of \$9.6 million shown by our data for 2007, this would indicate that the average company gave up 38% of its fully diluted capital to the investors in the Series A round.

Round	Average Amount of Capital Raised	Average Pre-Money Valuation	Dilution / % Ownership to Investors
Series A rounds	\$6.0 million	\$9.6 million	38%
Series B rounds	\$11.8 million	\$28.2 million	29%
Series C and later rounds	\$13.1 million	\$60.3 million	18%

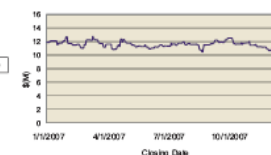
Series A



	2005	2006	2007	Q1 07	Q2 07	Q3 07	Q4 07
Average (\$M)	\$5.7	\$5.7	\$6.0	\$6.3	\$5.0	\$5.4	\$6.0

For Series A as well as later rounds of financing, based on our average data for 2007 relating to the amount of capital raised and the pre-money valuations of the companies seeking capital, the dilution and percentage ownership associated with these financings are shown in the first table above.

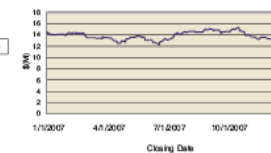
Series B



	2005	2006	2007	Q1 07	Q2 07	Q3 07	Q4 07
Average (\$M)	\$9.9	\$10.6	\$11.8	\$9.6	\$10.8	\$12.8	\$11.3

On a related note, we are seeing a number of startup companies pursuing Web 2.0 and similar online business models that do not require this amount of initial equity financing. In these cases, seed capital is all that is required to establish the viability of the business model, and the amount of equity ownership conferred upon the initial investors is, therefore, substantially less.

Series C and later



	2005	2006	2007	Q1 07	Q2 07	Q3 07	Q4 07
Average (\$M)	\$15.4	\$14.4	\$13.1	\$11.4	\$13.5	\$14.6	\$10.4

From the perspective of the founder who begins with 100% ownership of the company before seeking investors for growth capital, and whose business plan contemplates three rounds or more of equity capital from institutional investors, the table at the top of the page shows a long range dilution factor of 85%, i.e., the founder's initial 100% ownership position in the company would diminish to 15% (without taking into account other factors that would affect this dilution). Of course, the table above also contemplates ever increasing valuations based on successful execution of the business plan. In fact, this type of growth scenario, accompanied by dilution that corresponds with fundraising at ever increasing valuations, is the model that most entrepreneurs pursue.

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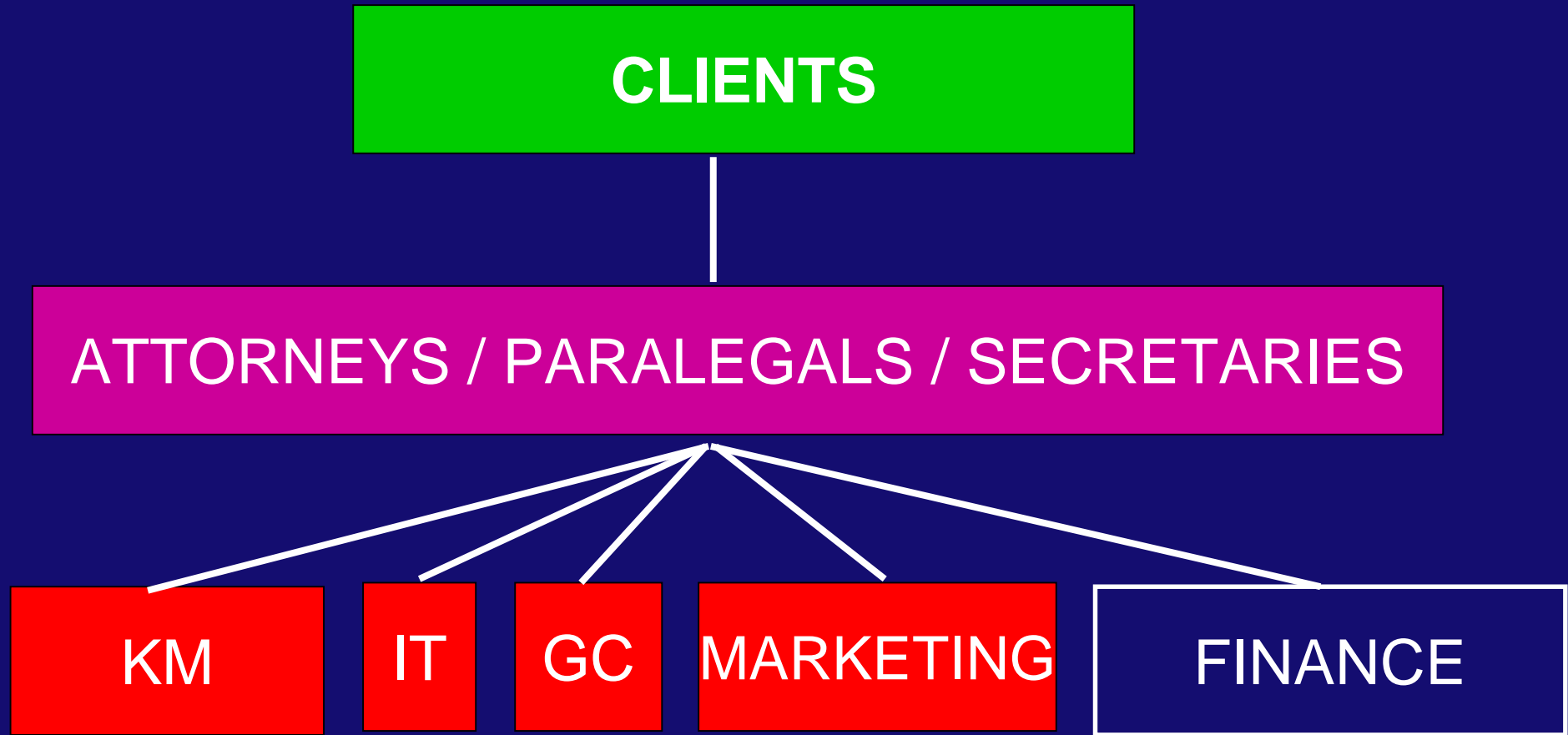
Business Alignment

Start-up practice, phase 2


Goal	Big-budget Solution	2009 KM Solution
<ul style="list-style-type: none">■ Build firm brand and generate leads	<ul style="list-style-type: none">■ Large sponsorship and events spend	<ul style="list-style-type: none">■ Repackage and publish deal data as “state of the market”■ Turn “inside” document assembly tool “outside”

Political Alignment

Start-up practice, phase 2



The Venture Financing Term Sheet Generator



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- Intellectual Property
- Intellectual Property Counseling & Patents
- Intellectual Property

WSGR Term Sheet Generator

This tool will generate a venture-financing term sheet based on your responses to an online questionnaire. It also has an informational component, with basic tutorials and annotations on financing terms. This term sheet generator is a modified version of a tool that we use internally, which comprises one part of a suite of document automation tools that we use to generate start-up and venture-financing-related documents.

Because it has been designed as a generic tool that takes into account a number of options, this version of the term sheet generator is fairly expansive and includes significantly more detail than would likely be found in a customized application.

Please direct any general questions regarding the term sheet generator to [Tony Kikuta \(akikuta@wsgr.com\)](mailto:akikuta@wsgr.com) or [Yokum Taku \(ytaku@wsgr.com\)](mailto:ytaku@wsgr.com) at (650) 493-9300. For technical issues, please contact the WSGR help desk at (650) 493-9300 (ext. 6161).

By using the WSGR Term Sheet Generator, you agree to the Terms and Conditions below.

LAUNCH



Preferred Stock Rights – Liquidation Preference



Preferred Stock Rights – Liquidation Preference

Note: You may need to scroll down to view all of the questions.

[Click here to view a discussion of liquidation preferences](#)

Tutorial

A basic feature of preferred stock is the preferential right to receive distributions upon certain events. These liquidation preferences apply to distributions in connection with a liquidation and dissolution of the company (*i.e.*, a traditional liquidation) and distributions in connection with the sale of the company (*i.e.*, a “deemed” liquidation).

The structuring of liquidation preferences is an issue of critical importance to investors and founders. In particular, founders (who will typically be in a subordinate position by virtue of holding common stock) should take care to understand the effect of liquidation preferences in various scenarios. Founders sometimes focus on IPO scenarios (in which liquidation preferences typically do not come into play) without due regard for other, more likely liquidation scenarios where investors will have a preference.

Investors should also exercise some discretion in negotiating liquidation preferences. Liquidation preferences, particularly those that provide for multiple returns or participation rights, may result in skewing management incentives toward an initial public offering where an acquisition may be a more realistic or strategically desirable outcome.

Priority

Liquidation priority:

- Senior to common
- Pari passu with common (no liquidation preference)

[Click here to view market data](#)

[Click here to show/hide explanatory notes](#)

Amount of Preference

Amount:

- Purchase price
- Multiple of purchase price

[Click here to show/hide explanatory notes](#)

Private Company Financing Trends (WSGR Deals)

	2007 All Rounds ²	2008 All Rounds ³	Q1 2009 All Rounds ³	2008 Up Rounds ⁴	Q1 2009 Up Rounds ⁴	2008 Down Rounds ⁴	Q1 2009 Down Rounds ⁴
Liquidation Preferences - Series B and Later							
Senior	50%	45%	45%	37%	29%	69%	60%
Pari Passu with Other Preferred	48%	53%	48%	61%	64%	21%	28%
Complex	0%	2%	5%	2%	0%	4%	8%
Not Applicable	2%	0%	2%	1%	7%	6%	4%
Participating vs. Non Participating							
Participating - Cap	29%	28%	21%	31%	15%	26%	16%
Participating - No Cap	32%	30%	35%	25%	15%	38%	36%
Non-participating	40%	42%	44%	43%	69%	36%	48%
Anti-Dilution Provisions							
Weighted Average - Broad	88%	92%	91%	91%	100%	77%	80%
Weighted Average - Narrow	3%	2%	3%	3%	0%	4%	4%
Ratchet	4%	5%	4%	3%	0%	9%	8%
Other (Including Blend)	5%	1%	1%	3%	0%	10%	8%

Checklist for Crossing the Chasms

- Align the project with business and politics
- Focus on real need, not KM theory
- Communicate both within and outside of the team
- Account for regional differences
- Secure committed, continuous leadership
- Adapt the resource to the user, not vice versa
- Match the resource to each constituency's drivers
- Go for “windmills” rather than “treadmills”
- Phase delivery and adapt to feedback