SEPTEMBER 14, 2011

NOAM WASSERMAN
FURQAN NAZEERI
KYLE ANDERSON

Term Sheet Negotiations: A "Rich-vs.-King" Approach

Founders of high-potential ventures often face critical challenges obtaining the financial capital necessary to meet business milestones and to keep pace with growth. There are a variety of different types of investors available to entrepreneurs. For seed capital, many individuals *self-fund* or work within their social network to raise money from *friends and family*; but this has limited potential for financing a fast-growing company. For entrepreneurs in need of more cash, the intermediate step is often an angel investor. *Angel investors* are wealthy individuals who take an interest in a start-up and choose to invest their personal money in exchange for equity and a role in the future of the business. These individuals often invest up to a couple million dollars, and may offer valuable expertise for the young business. Moreover, angel networks, such as Band of Angels and Common Angels, have recently brought together experienced executives from around the country to pool their capital in support of some of the most successful high-technology ventures.[1]

But for small, high-potential companies that are too risky for public capital markets or traditional institutions, a common target is *venture capital* (VC) financing. This note summarizes the key tradeoffs that arise in the negotiations between investors and entrepreneurs by focusing on the term sheets that guide the relationship between the capital providers and the founders of the start-up. The decisions made by entrepreneurs in the early stages of financing influence critical outcomes that can determine their ability to grow a valuable venture and maintain control of it in the future; entrepreneurs should understand these long-term implications before they sign the first term sheet. As such, this note focuses on the most common terms in the term sheet during the first round of financing (the "A" round).[A] This note focuses on the term sheets employed by VCs in particular because of the similarity of terms across different deals between VCs, other financial investors, and entrepreneurs.

With the multiplicity of terms in a term sheet, it is often hard for entrepreneurs, especially novice entrepreneurs, to know which terms are most important for them to focus on in negotiations. A core thesis of this note is that trying to negotiate all of the terms in a term sheet will be less effective than focusing on the terms that are most important to the specific entrepreneur, taking into account the

[A] These "A" round term sheets can contain a variety of different provisions depending on the founder and the investor, but this note focuses on the most important terms (e.g., it ignores lower-priority terms, such as right of first refusal and attorney's fees) and on the specific terms that are valued differently by different types of entrepreneurs. This note also does not cover founder employment agreements, which may include contingencies for what happens in the event of founder-CEO succession, special voting rights for founder's stock, and vesting of founder stoc

Professor Noam Wasserman, Furqan Nazeeri (MBA 1999) and Research Associate Kyle Anderson prepared this note as the basis for class discussion.

entrepreneur's goals and motivations in founding the venture. In particular, terms that are higher-priority to a control-motivated "King" founder are often lower-priority to a wealth-motivated "Rich" founder, and vice versa. Thus, this note identifies the most common terms that differ in their importance to different types of founders, and provides them with a framework for weighing the relative importance of each potential term sheet outcome for their specific type.

Specific issues covered in this note include:

- The importance of term sheets and the various influences during negotiations between investors and entrepreneurs in the early stages of financing
- The Rich-vs.-King framework, which contextualizes the decisions made by entrepreneurs in their struggle to grow their venture while maintaining control of it
- A term-by-term breakdown of term-sheet negotiations based on the Rich-vs.-King framework

To provide hands-on experience with using this approach to analyzing term sheets, the **Appendix** provides a concrete framework for scoring competing term sheets.

VCs and Term Sheets

The relationship between VC and entrepreneur usually begins with a meeting. After the meeting, if the VC sees potential in the opportunity, the VC begins a process of due diligence to learn more about both the start-up and the entrepreneur, touching on issues like technology, business model, competition, capital intensity and various other factors used to assess the opportunity.. Once the prospective VC is satisfied with this process, the next step is to issue a term sheet and begin negotiating the major terms. Term sheets are used by a wide variety of investors, but they become more formal as entrepreneurs climb up the ladder from angels to VCs in order to obtain more capital. Term sheets have two important functions: they summarize all the important financial and legal terms related to a transaction; and they quantify and qualify the value of the transaction or VC financing.[2] The relationships between investors and entrepreneurs are long-term commitments, with financing raised in rounds typically 12-18 months apart. All future legal documents governing these transactions can be affected by the initial term sheet.

A lot is at stake for both VCs and entrepreneurs in these negotiations. First, VCs face a treacherous road to achieve success on their investments, with between one-quarter and one-third of all venture capital investments resulting in an absolute loss.[3] Unlike angel investors who invest their personal funds, VCs are dedicated firms with a fiduciary responsibility to Limited Partners who choose to invest in their funds, so VCs need to *show good returns*. This means that, within a portfolio of entrepreneurial start-ups, investors need to maximize the investments from the start-ups with the most growth potential to make up for systemic losses. Investors work to create an *exit from their investment*, either by doing an initial public offering (IPO) or by selling the venture (or, less prominently, selling their share in the venture) in order to realize returns. Investors also face a structural disadvantage vis-a-vis the founding team when trying to determine the present value and future growth potential of the company. Therefore, VCs need to find ways to *minimize their downside risk* by placing controls on entrepreneur behavior and giving themselves an option to abandon future commitments. VC (and former entrepreneur) Jeff Bussgang observes, "VCs minimize downside risk because it's their money, but they own less than 50% of the company, so they want to have some

control over their capital while giving the entrepreneur free reign to run the company and pursue the opportunity."[4]

On their side, entrepreneurs often *need capital* to scale operations and drive growth. During the early phases of product development (i.e., before they finish developing their initial products), new ventures usually have no revenues nor have any incoming cash, and thus require outside capital to pay their employees and expenses. Entrepreneurs also *need expertise and contacts* in order to find partners and critical members of the top management team, and VCs can help recruit the top management team; make introductions to potential partners; and shape the venture's business plan.[5] Magnifying the importance of the initial term sheet negotiations, investors in subsequent rounds of financing will use valuations from prior rounds to measure company success, and use terms from prior rounds as a blueprint for subsequent deals.[6]

A broad variety of terms may come up in the process of negotiations, and every relationship will produce a slightly different agreement. However, in his illuminating posts on term sheet negotiations, VC blogger Brad Feld concludes: "In general, there are only two things that venture funds really care about when doing investments: economics and control."[7] *Economics* refers to the return on investment for the VC at exit. *Control* refers to the ability of the VC to control or veto certain decisions. These two major categories of terms suggest that the Rich-vs.-King framework, which focuses on the tension between wealth-building versus control-maintaining decisions, might be an effective approach to understanding term-sheet negotiations.

"Rich-vs.-King" Framework

Many entrepreneurs found their ventures with the intention of leading a valuable business to future success. But often, these founders are overconfident about their prospects and fail to plan for contingencies that arise in the process of growing a business. For instance, in a 1988 Purdue University study of 3,000 entrepreneurs, the average respondent predicted an 81% chance of success for their own ventures, compared with 59% for similar ventures in their industries—and one in three claimed their own likelihood of success was fully 100%![8] Founders' overconfidence and attachment to their ventures may help them persist in the face of objectively daunting odds, but these emotions can later create problems.

As ventures grow, founders face the reality that additional financing is necessary to scale operations. They can look to themselves, family members and friends, angel investors, or venture capital firms to provide these funds, but they face increasing pressure to compromise as they reach high-potential investors. Founders who "bootstrap" their ideas (i.e., do not take capital from outsiders) are able to maintain control, but run the risk of losing talent and market share to more well-funded competitors. To attract the big bucks, entrepreneurs may have to sacrifice equity, seats on the company's board, and control over major decisions. In this scenario, they may only end up with a slice of the pie (as opposed to the whole pie) but it will likely be a more valuable piece.[9]

Once the founder loses control of the company's board, or agrees to terms that give outsiders control over the CEO position even without controlling the board, his or her job as CEO is at risk. Celebrity-entrepreneurs like Bill Gates, Phil Knight, and Anita Roddick, who led their companies through the trials of a start-up to success in the public market, may have captured the public imagination and inspired generations of founders—but they are the exceptions that help prove the rule. According to an analysis of 212 American start-ups, most founders rarely retain their role as CEO for long. By the time their ventures were four years old, 50% of founders were no longer CEO;

and fewer than 25% of the start-ups that eventually do go public are still led by founder-CEOs. Moreover, 4 out of 5 replaced founder-CEOs were forced to step down.[10]

Paradoxically, it is often the most successful founder-CEOs who are forced to step down the fastest.[11] Many founders believe that if they can lead their company through the initial phases of gathering resources and developing a marketable product, it is evidence of their skills as a chief executive. But as the company transitions from the start-up phase and becomes more complex, the CEO must possess the skills necessary to tie together the various functions of production, finance, sales and marketing; develop specialized roles and organizational hierarchy; and build and maintain relationships with customers. A technology-oriented CEO, for instance, may be the best person to lead a start-up in its infancy. However, when outside investors—motivated by their desire to maximize returns and empowered by their control over key decisions—observe this organizational transition, they often force the founder-CEO to step aside in favor of a new CEO.

According to a large study of entrepreneurial motivations, the top two motivations are building wealth (a "Rich" motivation) and maintaining control (a "King" motivation).[12] Not only are these the most common entrepreneurial motivations, but for entrepreneurs who do not control all of the resources needed to fully pursue their opportunities,[13] these two motivations are also inherently in tension with each other. In the early stages of negotiations with investors, founders must often make critical choices which yield Rich-vs.-King tradeoffs. To attract the best resources with which to build a valuable venture, a Rich-motivated founder should be willing to give up more equity, board representation, and voting rights. By doing so in order to attract the best resources, the founder usually ends up with a more valuable slice of the economic pie.[14] But, with each round of financing and each new investor, entrepreneurs give up control over decision making and relinquish their power as CEO. In contrast, a King-motivated founder can choose to bootstrap the venture or to only take money from investors who will allow the founder to remain in control—but often end up building a less valuable company because they failed to attract the best people and resources to the venture. To avoid becoming neither Rich nor King, founders should understand their primary motivation (Rich or King) for starting a new venture; understand that actions that increase the chances of maintaining control tend to harm the creation of value (and vice versa); and negotiate investment terms that are designed to reach their core goal.

Important Terms for "Rich" and "King" Entrepreneurs

This section focuses on the key terms and issues contained in the term sheets negotiated between entrepreneurs and investors. Key terms will be identified, defined, and ranked in importance on a scale of 0 (no importance) to 10 (highest importance) from the differing perspectives of Rich-vs.-King. This is represented graphically in **Figure A**, where the darker the bar, the higher its importance should be to that type of entrepreneur. Although many founders fall in between the two extremes, the more clearly the founder can pinpoint his or her core motivation, the clearer will be the founder's priorities when negotiating the term sheet (founders who have equally strong motivations, or who are unclear about their motivations, face the challenge of not being able to prioritize which terms are most important to them). For the sake of exposition, we will discuss each of the terms independently; however, it should be noted that some of the terms are interdependent.

Figure A Importance of Different Terms to Each Type of Founder

Terms	*"Rich" Importance*	*"King" Importance*
Price/Valuation	10	3
Option Pool	10	3
Liquidation Preference	7	0
Anti-Dilution Protection	5	3
Dividend Rights	5	0
Board Composition	0	10
Protective Provisions	0	8
Drag Along Rights	1	8

Source: Authors.

High Priority Terms for the "Rich"-Motivated Entrepreneur

The terms which a wealth-oriented entrepreneur should prioritize are the ones that affect the ability of the entrepreneur to maximize his or her financial gains from the venture.

1. **Term:** Price/Valuation

Definition: The "pre-money" valuation is a measure of the market value of the company, immediately prior to the company's receiving the new invested capital. "Post-money" valuation is simply the pre-money valuation, plus the new capital provided by investors. Entrepreneurs shop around for investors who provide the best price (i.e., highest valuation), because all other things being equal, a higher price reduces the dilution suffered by insiders.[B] Conversely, in their first round of investment, new investors will look to set the lowest possible price and thus gain a higher percentage of the ownership (though this can be counterbalanced in later rounds by the existing investors' desire to prevent dilution for their investment by getting a higher valuation).[15] As entrepreneurial ventures continue past the "A" round, the value of the company will reflect their growth since the initial VC investment. A representative sample of VC financing deals from 2007 and 2008 included 21% "down" rounds (where valuation was lower than the initial term sheet), 14% "flat" rounds (where valuation was the same as the initial term sheet), and 65% "up" rounds (where the new round pre-money valuation was lower than the prior round post-money valuation).[C,16]

[B] Entrepreneurs, who usually own a majority of the shares in their companies prior to investment, experience dilution as a lowering of the percentage of their ownership stakes when new shares are created and given to new investors. Higher valuations allow entrepreneurs to issue more shares while still preserving a valuable slice of the company.

[C] In Q1 2009, only 29% of rounds were up rounds, with 51% down.

Importance to Rich-motivated entrepreneurs: 10/10. The higher the valuation, the more equity the founder retains, the less the founder's dilution, and the more valuable the founder's equity stake will be now and at time of exit.

Importance to King-motivated entrepreneurs: 3/10. The King-motivated founder should be willing to give up some financial gains in order to maintain control of the venture. Thus, terms that more directly affect control of the venture (described in detail below) should be much higher priority than this term.

2. Term: Option pool

Definition: Companies must retain the ability to offer their employees an attractive stock options package if they intend to attract top talent. The option pool is the amount of equity that is set aside to hire employees. (Although this appears as a separate term on the term sheet, it is directly linked to the valuation of the company, described above.) In addition to negotiating the size of the option pool, a key economic issue is whether the pool is created just before the round (thus causing the founders and other inside shareholders to suffer the dilution caused by the creation of the pool) or as part of the round (thus causing investors to also incur some of the dilution).

Importance to Rich-motivated entrepreneurs: 10/10. This term directly affects the percentage of the equity owned by the founders, the value of their equity stakes, and the percentage they will own upon exit (it may also affect the quality of employees they can attract, thus affecting the value of the venture).

Importance to King-motivated entrepreneurs: 3/10. Once again, King-motivated founders should focus their bargaining leverage on other terms that affect their control of the venture.

3. Term: Liquidation Preference

Definition: If a company liquidates or has a merger/acquisition (M&A) event, this term determines how VC-held preferred stock is paid. This term actually has two parts. The "preference" will be whether investors recoup 100% of their investment, or a multiple thereof, before non-preferred shareholders (e.g., the founders who own common stock) receive any proceeds. The second part is whether or not the new shares are "participating." "Participation" indicates whether or not investors participate in the back-end of payouts, when the proceeds from the exit are divided among the common shareholders. The participation can also be capped at a certain level. In a representative sample of VC financing deals, 21-29% included capped participation, 30-35% included uncapped participation, and 40-44% did not include any back-end participation for VCs.[17]

Importance to Rich-motivated entrepreneurs: 7/10. This term dictates how big of a slice of the pie investors receive in a liquidation event, so it is (relatively speaking) a zero-sum game. The stronger the preference is for investors, the worse the financial gains for the entrepreneur.[D]

Importance to King-motivated entrepreneurs: 0/10. Control-motivated entrepreneurs should focus their priorities on other terms.

4. Term: Anti-Dilution Protection

[D] Wealth-motivated entrepreneurs should prefer preferences in the 100% range and no participation, and at the very least work for preferences in the 200% - 400% range with capped participation. A high-end preference with full participation is the worst-case scenario.

Definition: In the event that subsequent rounds of financing set the value of the company—in particular, the price per share—lower than that originally paid by the investor, this term will adjust the conversion rate from the preferred stock held by the VC to common stock to be sold, on a basis that preserves much of the original value of the investment. The primary point of contention will be *how* to adjust preferred stock to common stock. Aggressive investors may push for a "full ratchet," so that if the company issues a single share at a lower price, all preferred stock is revalued to match the new issuance (i.e. if price per share is cut in half, preferred stock converts to common stock at a rate of 2 to 1, effectively giving investors double the voting control). This type of term is very uncommon, representing only 4% of deals in 2007-2009. The most common state in VC financing deals is a "weighted average" anti-dilution protection, which reduces the conversion price based on the ratio of investor's stock to total stock owned (i.e. preferred stock converts to common stock at a rate proportional to the percentage of equity owned; the more a VC owns, the closer they will be to a "full ratchet"). A "broad-based weighted average" conversion, which compares the amount of stock held by investors to the total amount of company stock—defined liberally including options—is more favorable for entrepreneurs and appeared in 88-92% of deals in 2007 and 2008. In contrast, investors prefer "narrow-based weighted average" conversions, which compare preferred stock to outstanding stock excluding options—an uncommon state, reflected in only 2-3% of deals.[18] Weighted-average provisions thus limit the dilution of common stock upon conversion, but do not eliminate it entirely, and most deals end up at broad-based weighted average.

Importance to Rich-motivated entrepreneurs: 5/10. Since this term only has value in the event of a down-round, Rich entrepreneurs should weight this less than other key terms like valuation, and manage time and negotiation efforts accordingly. Wealth-motivated entrepreneurs should spend a moderate amount of effort to exclude any anti-dilution provisions. If investors insist on such provisions, working to include a weighted-average conversion with favorable terms should be a priority. A "full-ratchet" is the worst-case scenario.

Importance to King-motivated entrepreneurs: 3/10. Anti-dilution means more shares are issued; the entrepreneur's control will quickly disappear under more stringent anti-dilution rules. At the same time, for King-motivated entrepreneurs, this term is lower priority than terms that have a more direct impact on control of the venture.

5. Term: Dividend Rights

Definition: This term entitles preferred stock to accrue dividends (often cumulatively) that will be paid before any other class of stock receives its share of proceeds.

Importance to Rich-motivated entrepreneurs: 5/10. Wealth-motivated entrepreneurs should value the exclusion of all dividend rights at a 5/10. A dividend with simple interest appreciation would be less attractive for them, and a cumulative, compounding-interest dividend would be the worst-case scenario.

Importance to King-motivated entrepreneurs: 0/10. Control-motivated entrepreneurs can better focus their attention elsewhere.

High Priority Terms for the "King"-Motivated Entrepreneur

The control-motivated entrepreneur should focus on the terms that affect the ability of the founder to guide the company in its future decision-making processes. VCs often attempt to constrain the

founder-CEO with board representation and special voting rights assigned to their preferred stock. Rich-motivated founders should be more open to such constraints (if they can get better financing terms, as described above), but King-motivated entrepreneurs should work to minimize these constraints and the terms that imperil their control of the venture.

6. **Term:** Board Composition

Definition: This section of the term sheet describes how the Board of Directors will be chosen. Boards often include representation from the founder(s), company, investors, and outsiders brought in for their contacts or expertise. The Board of Directors has many important functions, including the responsibility to choose the CEO, to approve the issuance of new shares, and to broadly define the mission of the company. When founders still control a majority of the board (e.g., hold two of the three board seats), they have much more control over those decisions than when outsiders control the board (e.g., investors control three of five board seats).[E] As Ockham's term sheets illustrate, the politics of board representation are distinct from voting influence derived from equity shares.

Importance to Rich-motivated entrepreneurs: 0/10. Entrepreneurs motivated by the desire to exit the venture with a more valuable slice should be willing to secure more financing (and potential VC value addition) for giving up more board representation, even if it imperils their remaining CEO.

Importance to King-motivated entrepreneurs: 10/10. In addition to turning over your fate as CEO to the interests of investors, entrepreneurs who give up board representation also open up space for others to have a say in the mission and strategic vision of the company. Control-motivated founders should work to maintain a high proportion of representation and voting power on the board. Jeff Bussgang observes, "King-motivated entrepreneurs should care about the board composition above everything else!"[19]

7. **Term:** Protective Provisions

Definition: This term includes a variety of extra voting rights reserved for the class of VC-held preferred stock—distinct from Board representation. Investors will insist on the right to veto certain actions, such as taking on a given percentage of debt, altering the board or articles of incorporation, or taking on additional rounds of financing. Similar to drag-along rights (see below), the important protective provisions often pertain to M&A events and the freedom to raise future rounds of financing, but may also include spending limits and restrictions on personnel changes. The entrepreneur should insist on a threshold of VC-held equity (e.g., 50%) for these provisions to kick in.

Importance to Rich-motivated entrepreneurs: 0/10. For wealth-motivated entrepreneurs, protective provisions are lower priority than the terms (described above) that affect the value of their financial stakes, and they should focus their bargaining leverage on those other terms.

Importance to King-motivated entrepreneurs: 8/10. Control-motivated entrepreneurs should push for no protective provisions, the most favorable outcome for negotiating this term. The least favorable outcome would be to give investors extensive approval rights over detailed operating decisions for so long as they are an investor. A more balanced outcome would be for an investor

[E] Also at issue is which director will serve as chairman of the board and which directors will serve on various board committees – e.g., the compensation committee and the nominating committee.

to have limited approval rights with an ownership threshold; for example, the rights would lapse were the investor's ownership to fall below 10%.

8. **Term:** Drag Along Rights

Definition: In case of an M&A offer from a third party, this term determines who gets preference in authorizing the sale of the company. Investors will ask for the right to force all stockholders to consent to any offer, since most acquirers will require that they own a vast majority of stock for the sale to be completed. Entrepreneurs will push for a certain threshold of equity control to be met by the preferred stock (e.g., the VC must own 50% of equity) in order to drag along the rest of the stockholders. The point of negotiation becomes where to set the threshold.

Importance to Rich-motivated entrepreneurs: 1/10. The issue for a wealth-motivated entrepreneur is if preferred stock were to be indifferent to an acquisition offer that could benefit founder's stock. Entrepreneurs don't want investors to block a potentially profitable sale.

Importance to King-motivated entrepreneurs: 8/10. King-motivated entrepreneurs should push for the founders and VCs to require common consent (i.e. the founder can't sell the company without the approval of the VCs, but vice-versa also applies). The worst case scenario is when a single VC can decide to sell and "drag" everyone else with them. The balanced state is when it takes some threshold percentage of VCs within a syndicate to agree to sell (as time goes by, the early investors' interests start to look more like "founder" interests relative to brand new investors). Once again, we'll give the last word to Jeff Bussgang: "The drag is the second most important term for the King-motivated entrepreneur. If the VCs can drag you, you have no vote in the M&A decisions." [20]

Conclusion

The relative importance of each term for contrasting types of "Rich" and "King" entrepreneurs outlined above is meant as a guide for entrepreneurs during the negotiation process. Entrepreneurs should focus on negotiating better terms for those items that are high-priority for their type of motivation. But this framework is also useful for founders as they move into the process of evaluating competing offers and ultimately making a decision regarding alternative sources of financing. By keeping in mind their motivations for founding a startup in the first place, entrepreneurs can make a decision that fits with their personal goals and values. The **Appendix** provides a scoring framework for hypothetical competing term sheets and a guide to score these term sheets based on your personal entrepreneurial motivations.

Ultimately, the terms on which to focus your energy depend on your personal values and motivations in starting your venture. Rather than wasting time on redemption rights or attorney's fees, cut right to the heart of the deal and determine which terms are important to you on a Rich-vs.-King scale.

Appendix A Scorecard for Evaluating Competing Term Sheets

To evaluate two competing term sheets, use the table shown below as a scorecard (see **Figure B**). First, review the "Importance" values from **Figure A** (shown in **Figure B** below). Then, for the two term sheets, score the "Desirability" of each of the core terms on a scale of 1 to 10, with 1 being the least desirable state and 10 being the most desirable. Write those values in the two "Desirability of Term" columns in the scorecard.

After scoring each term, calculate the following for Term Sheet #1 ("TS1"):

- Calculate TS1's points for a Rich entrepreneur:
    1. For the Valuation term, multiply TS1's Valuation Desirability score by the Valuation term's Rich Importance (i.e., 10, as shown). Likewise, for each of the other terms, multiply that term's Desirability score by its **Rich** Importance.
    2. Add up all of the Desirability X Rich Importance amounts. This sum is TS1's Total Points for a Rich entrepreneur.
- Likewise, calculate TS1's points for a King entrepreneur:
    1. Multiply TS1's Valuation Desirability score by the Valuation term's King Importance (i.e., 3, as shown). Likewise, for each of the other terms, multiply that term's Desirability score by its **King** Importance.
    2. Add up all of the Desirability X King Importance amounts. This sum is TS1's Total Points for a King entrepreneur.

Repeat this process for Term Sheet #2 ("TS2") on the right side of the scorecard.

Once you have calculated all four "Total Points" scores (TS1/Rich, TS1/King, TS2/Rich, TS2/King), choose the term sheet that has the highest number of points for the appropriate type of entrepreneur (Rich or King). That term sheet is the one that will provide the most favorable terms for your type of entrepreneurial motivation.

Figure B Scoring the Term Sheets

	Term Sheet #1			*Term Sheet #2*		
	Desirability of Term	Rich Importance	King Importance	Desirability of Term	Rich Importance	King Importance
Valuation	_____	10	3	_____	10	3
Option Pool	_____	10	3	_____	10	3
Liq'n. Pref'c.	_____	7	0	_____	7	0
Anti-Dilution Protection	_____	5	3	_____	5	3
Dividend Rts.	_____	5	0	_____	5	0
Bd. Compos'n	_____	0	10	_____	0	10
Protective Provisions	_____	0	8	_____	0	8
Drag Along Rights	_____	1	8	_____	1	8
TOTAL POINTS	(Sum of Desir'ty X Importance Scores)	_____	_____	(Sum of Desir'ty X Importance Scores)	_____	_____

- Term sheet that should be preferred by King-motivated entrepreneur: _____
- Term sheet that should be preferred by Rich-motivated entrepreneur: _____
- Term sheet ***I*** would prefer: _____

Source: Authors.