Wilson Sonsini Goodrich & Rosati
PROFESSIONAL CORPORATION

THE ENTREPRENEURS REPORT
Private Company Financing Trends

1H 2016

Dual-Class Stock: A Founder Favorite Faces Growing Investor Disapproval

By Lianna Whittleton (Associate, Palo Alto)

Earlier this year, the investment firm T. Rowe Price adopted new voting policies that penalize companies with dual-class stock structures. They join a growing chorus that includes the California Public Employees' Retirement System (CalPERS) and Institutional Shareholder Services (ISS), which argue that these structures are undemocratic and constitute bad governance. Dual-class stock is designed to permit a strategic group of insiders, such as founders, management, and early investors, to maintain control. A number of

(Continued on page 2)

IN THIS ISSUE

Dual-Class Stock: A Founder Favorite Faces Growing Investor Disapproval.......................... Pages 1-3

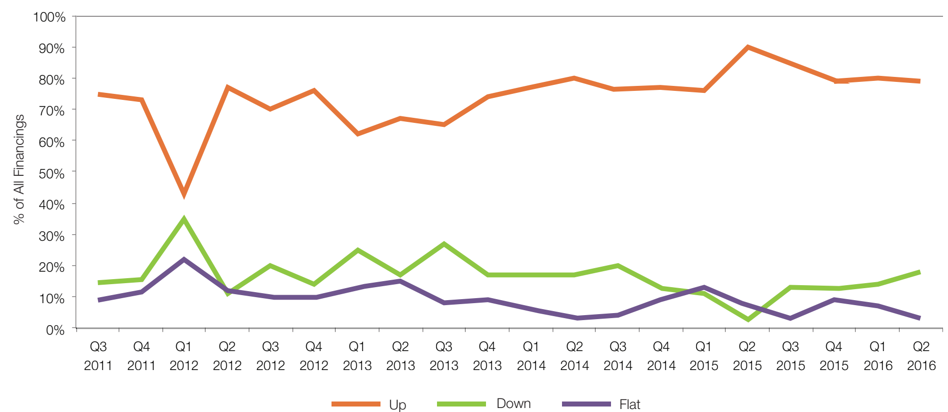
Financing Trends for 1H 2016............................. Pages 1, 4-8

An Interview with Charlie Bonello and Matt Harrigan of Grand Central Tech....................... Pages 9-14

theBoardlist Index Shows Growth in Number of Women Board Members..................... Page 15

From the WSGR Database: Financing Trends for 1H 2016

Up and Down Rounds by Quarter - Equity Financings



The decline in valuations in Series C and later transactions from the peaks reached in the middle of 2015 has been well publicized. Valuations for Series B rounds have also fallen from their highs in 2015. In each case, the decline has been substantial. In Q2 2016, median valuations for Series B and Series C and later financings were below their medians for the past five years. On a more positive note, the percentage of up-round financings has remained high compared to the years prior to 2015. Moreover, amounts raised in Series A and Series B transactions remained strong; in particular, the median amount raised in Series A and Seed financings in Q2 was the highest it's been in the past five years.

Up and Down Rounds

Seventy-nine percent of all financings were up rounds in Q2 2016, only slightly less than in Q1 2016, and five percentage points above their five-year median (from Q3 2011 through Q2 2016) of 74%. The percentage of down rounds increased from Q1 2016, rising to 18% of post-Series A financings, one percentage point above their five-year median of 17%. Flat rounds dropped from 7% in Q1 2016 to 3% in Q2 2016.

Valuations

The median valuation for Series A and Seed financings fell to $9.0 million for Q2 2016—well below the $11.7 million figure for full-year 2015, but comparable to the

(Continued on page 4)

Dual-Class Stock (continued from page 1)

high-profile, publicly traded technology companies, including Box, Facebook, GoDaddy, Alphabet (Google's parent company), LinkedIn, and Yelp, have dual-class ownership structures.

While the details vary, typically a company with a dual-class structure has two classes of common stock that are identical in all respects except for voting and conversion rights. For example, Class A shares have one vote per share, while Class B shares have 10 votes per share. This ensures that, absent other terms that mitigate the power of the Class B holders, even if the aggregate Class B shares represent only 9.1% of the total shares outstanding, the Class B holders will continue to control a majority of the shareholders' voting power. Public companies are subject to stock exchange rules that prevent the reduction of existing voting rights or issuance of a new class with superior voting rights, making it difficult to adopt classic dual-class structures after a company has gone public. However, both the NYSE and NASDAQ permit a private company to maintain an existing dual-class stock structure or adopt a dual-class stock structure in connection with its initial public offering, based on the assumption that investors in the IPO have a choice of whether or not to invest under those terms. Not all exchanges are this permissive; for example, Alibaba elected to list on the NYSE in part based on its desire to implement an unusual voting structure that was not authorized under the rules of the Hong Kong Stock Exchange.

By granting to one class of shares—usually those held by founders and pre-IPO investors—significantly greater voting rights per share than the other class, companies separate voting control from percentage ownership, concentrating voting power. Proponents of dual-class stock structures argue that they allow management to focus on long-term business and strategic goals, mitigating pressures arising from market swings and short-term performance. These structures also reduce the ability of low-vote shareholders to pursue short-term value at the cost of long-term strategic goals. Additionally, dual-class stock is an extremely effective defensive measure, or strategy by which a company may fend off unwanted acquisition offers. Companies often delay the implementation of other common protective measures, permitting shareholders to continue to act by written consent and retain the right to fill vacancies on the board of directors, while the dual-class structure remains in place.

Those who support "one share, one vote" structures counter that dual-class stock makes it difficult for shareholders to change directors and challenge management, limiting the outside shareholders' ability to protect their investment or effect necessary change. There are also concerns about the increased likelihood of corporate misconduct due to the lack of accountability. Many critics argue that companies with dual-class stock underperform, and speculate that

Different Perspectives on Dual-Class Stock

Marc Andreessen, Andreessen Horowitz (2012): "It is unsafe to go public today without a dual-class share structure."

Bill George, Harvard Business School (2015): "A lot of people are thinking long and hard about going public because of the pressure of short-term investors, and that's why you see a lot of them go for two classes of stock…in governance terms it's bad, but I actually understand why they are doing it and I actually think it's probably a wise thing to do…because they control the company as if it were a private company and they are looking for long-term objectives."

Brian Fitzgerald, *The Wall Street Journal* (2015): "If you're an investor [in Google], you're asking yourself 'why is this company spending hundreds of millions of dollars that don't look like they're going to benefit the bottom line for the next 1, 3, 5, maybe even 10 years?' Google's response is, so what? They have a share structure that allows Larry Page and Sergey Brin to make these decisions…it doesn't mean they won't make money off them, I'm sure they will down the road, but they have a structure that allows them to take big, long-term chances."

James Surowiecki, *The New Yorker* (2012): "…[W]hen the right person is in charge, the dual-class structure can help companies avoid one of the problems besetting modern business—the short-termism of big institutional

investors. In the postwar era, most shareholders were individual investors who held on to stocks for ages and exerted little pressure on companies. Executives didn't have to worry about quarterly earnings and had the freedom to invest in long-term research and development. In today's market, by contrast, investors are far more aggressive in pressuring companies to hit their numbers. This has its benefits—companies are more efficient in using shareholder money, and underperforming CEOs are more likely to be shown the door. But investors now have very short-term horizons.…When shareholders reckon in months (or weeks) rather than in years, it's harder for companies to take the long view."

CalPERS (2011, in reference to News Corp's dual-class structure): "This is a corruption of the governance system. Power should reflect capital at risk. CalPERS sees the voting structure in a company as critical. The situation is very serious and we're considering our options. We don't intend to be spectators—we're owners."

ISS (2011): "Dual class structure… [is] an autocratic model of governance [that will make Facebook] less viable than a competitor whose governance gives owners a voice proportionate to the economics they have at risk."

Senator Elizabeth Warren (2013): "If a company goes to the public markets to raise money, long-term ordinary common stock investors…should be entitled to certain basic rights. One of the most basic of those rights is one-share-one-vote."

this is due to reduced pressure on management to deliver financial results.

Once adopted, dual-class stock structures do not necessarily continue indefinitely. Some companies alleviate concern over the structure by adopting sunset provisions, which convert all high-vote stock into low-vote stock upon the occurrence of certain events. These triggers can be time-based, where the dual-class structure expires a certain number of years following a company's IPO, or percentage-based, where it terminates when high-vote stock represents less than a certain percentage of the company's total outstanding shares. Class B shares also generally lose their high-vote status and convert to standard shares when transferred or sold, or upon death or incapacity of the holder. In addition, dual-class stock structures can be removed by shareholder consent, although that often requires a supermajority approval, including the approval of the high-vote shares.

While the popularity of dual-class stock structures has increased among technology companies, such structures have been historically popular in other industries. Media and communications companies such as *The New York Times* and *The Washington Post* (before its acquisition by Jeff Bezos) have long relied on these structures to vest control in a select group, often within a family. Similar to technology companies, the primary argument advanced for retaining these protections is also insulation from short-term investor demands, as well as freedom from financial pressures that might otherwise compromise journalistic integrity.

Dual-class stock is not the only means of consolidating decision-making authority. Alphabet (Google's parent company), whose dual-class structure caused a stir during its initial public offering in 2004, subsequently implemented a third class of entirely non-voting shares in 2015. Several other companies have followed suit and adopted similar non-voting classes of shares. Another method of concentrating control among pre-IPO shareholders is to permit the early shareholders to appoint a certain number of directors, thereby preserving control at the board level without otherwise diluting shareholder voting rights.

When considering whether or not to adopt a dual-class structure, private companies must evaluate the potential market impact. Companies with dual-class stock appear to be more susceptible to public criticism when the high-vote ratio is greater than 10:1, but even at that ratio the structure can serve as a lightning rod for criticism where stock performance is poor. While it is less likely that an activist or unwelcome acquirer will target a company if the publicly traded shares represent a small minority of voting power, many dual-class companies receive shareholder proposals, in some cases repeatedly, to eliminate the structure, which can also serve as a significant management distraction.

Financing Trends for 1H 2016 (continued from page 1)

$9.5 million median for full-year 2014. It was also well above the five-year median of $8.0 million.

Pre-money valuations for Series B rounds also declined. The median valuation for such rounds dropped to $22.9 million in Q2 2016—less than half of the historic high median of $53.5 million seen in Q2 2015 and even below the five-year median of $30.0 million.

Valuations for Series C and later deals remained well below the high levels reached in Q2 and Q3 2015. At $84.0 million in Q2 2016, the median valuation for these later-stage rounds was below their five-year median of $92.8 million.

Amounts Raised

The median amount raised in Series A and Seed transactions rose dramatically from $1.6 million in Q1 2016 to $4.6 million in Q2 2016, the highest median quarterly figure in the past five years.

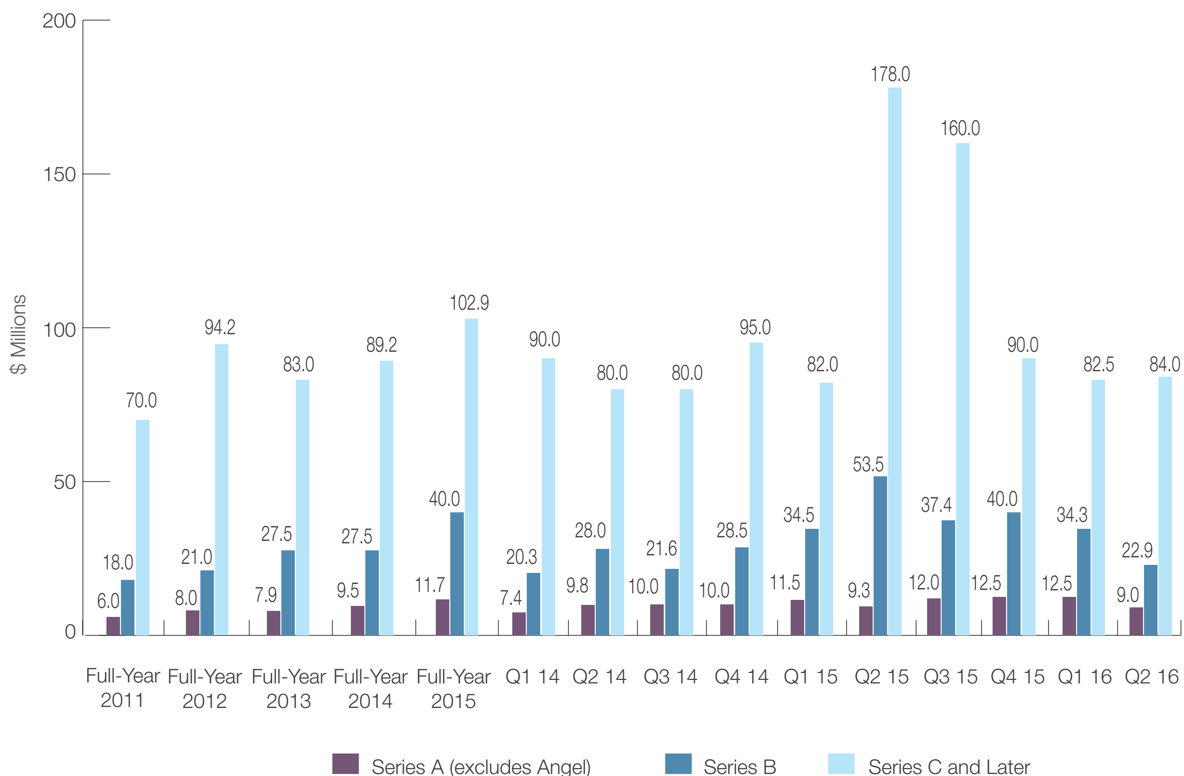
Median amounts raised in Series B as well as Series C and later transactions remained relatively stable. The median Series B amount raised increased slightly from $8.2 million in Q1 2016 to $8.4 million in Q2 2016. Similarly, the median amount raised in Series C and later transactions increased slightly from $10.0 million to $10.2 million.

Deal Terms – Preferred

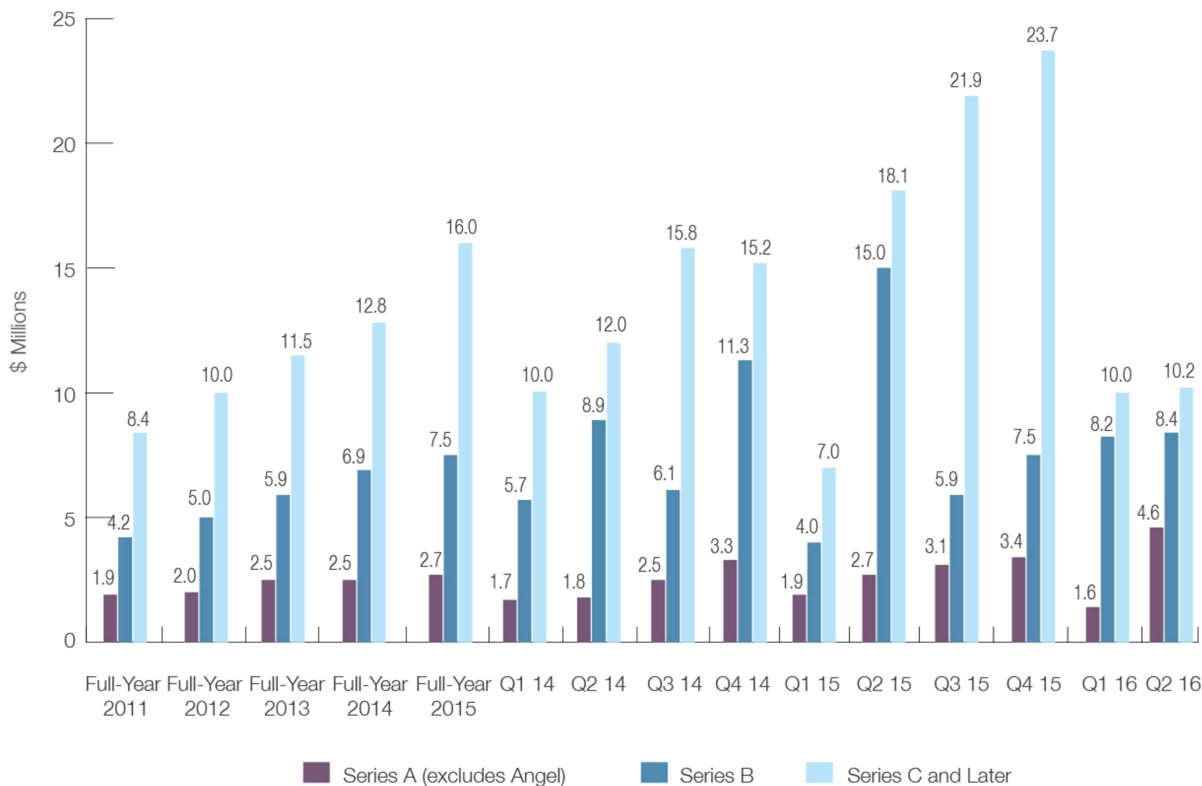
The use of senior liquidation preferences rose in Series B and later rounds, increasing modestly from 33% of all such rounds in 2015 to 40% in 1H 2016. The increase was particularly strong for down rounds, where Series B and later financings with a senior liquidation preference increased from 35% of all such transactions in 2015 to 45% for 1H 2016.

The percentage of financings having a liquidation preference with participation remained constant for all financings. More interestingly, the proportion of Series B and later up rounds with a participating preferred increased, while the proportion

Median Pre-Money Valuations



Median Amount Raised – Equity Financings



of down rounds plummeted from 47% in 2015 to 18% in 1H 2016. This may be a statistical anomaly resulting from the small number of down rounds in the first half of this year, or it may reflect decisions to forgo such rights in transactions where prior rounds also lacked such rights.

The first half of 2016 also saw a reversal of the recent decline in the use of broad-based, weighted-average anti-dilution protection, which had decreased from 90% of all deals in 2013 to 80% of all deals in 2015. In 1H 2016, by contrast, investors received broad-based, anti-dilution protection in 91% of all deals. Conversely, the use of narrow-based, weighted-average anti-dilution fell from 13% of all deals in 2015 to 1% of all deals in 1H 2016.

Data on deal terms such as liquidation preferences, dividends, and others are set forth in the table on page 6. To see how the terms tracked in the table can be used in the context of a financing, we encourage you to draft a term sheet using our automated Term Sheet Generator, which is available in the Start-Ups and Venture Capital section of the firm's website at www.wsgr.com.

For purposes of the statistics and charts in this report, our database includes venture financing transactions in which Wilson Sonsini Goodrich & Rosati represented either the company or one or more of the investors.

WSGR Methodology

- The Up/Down/Flat analysis is based on WSGR deals having an initial closing in the period reported to ensure that the data clearly reflects current trends.
- The median pre-money valuation is calculated based on the pre-money valuation given at the time of the initial closing of the round. If the issuer has a closing in a subsequent quarter, the original pre-money valuation is used in the calculation of the median for that quarter as well.
- A substantial percentage of deals have multiple closings that span fiscal quarters. The median amount raised is calculated based on the aggregate amount raised in the reported quarter.

Private Company Financing Deal Terms (WSGR Deals)[1]

	2013 All Rounds[2]	2014 All Rounds[2]	2015 All Rounds[2]	1H 2016 All Rounds[2]	2013 Up Rounds[3]	2014 Up Rounds[3]	2015 Up Rounds[3]	1H 2016 Up Rounds[3]	2013 Down Rounds[3]	2014 Down Rounds[3]	2015 Down Rounds[3]	1H 2016 Down Rounds[3]
Liquidation Preferences - Series B and Later												
Senior	41%	40%	33%	40%	38%	32%	31%	36%	47%	68%	35%	45%
Pari Passu with Other Preferred	55%	56%	62%	55%	60%	64%	66%	60%	37%	21%	53%	36%
Junior	0%	0%	1%	0%	0%	0%	1%	0%	0%	0%	0%	0%
Complex	3%	2%	3%	4%	2%	2%	1%	3%	11%	5%	12%	9%
Not Applicable	1%	3%	1%	1%	0%	2%	1%	0%	5%	5%	0%	9%
Participating vs. Non-participating												
Participating - Cap	18%	12%	8%	8%	20%	14%	11%	14%	23%	13%	12%	9%
Participating - No Cap	12%	14%	11%	11%	10%	11%	12%	14%	30%	32%	35%	9%
Non-participating	70%	74%	81%	81%	69%	76%	77%	72%	48%	55%	53%	82%
Dividends												
Yes, Cumulative	12%	13%	3%	7%	12%	11%	3%	9%	13%	24%	24%	18%
Yes, Non-cumulative	74%	72%	82%	71%	79%	74%	86%	78%	79%	71%	76%	82%
None	14%	15%	15%	23%	9%	15%	11%	14%	8%	5%	0%	0%
Anti-dilution Provisions												
Weighted Average - Broad	90%	85%	80%	91%	94%	90%	86%	91%	95%	92%	75%	91%
Weighted Average - Narrow	3%	9%	13%	1%	3%	6%	12%	2%	0%	5%	19%	0%
Ratchet	1%	1%	1%	2%	0%	1%	1%	2%	3%	0%	0%	0%
Other (Including Blend)	1%	1%	1%	2%	1%	1%	1%	2%	0%	0%	0%	9%
None	5%	4%	5%	4%	2%	2%	1%	3%	3%	3%	6%	0%
Pay to Play - Series B and Later												
Applicable to This Financing	5%	4%	5%	8%	1%	1%	3%	3%	15%	16%	18%	27%
Applicable to Future Financings	1%	0%	1%	3%	1%	0%	0%	2%	0%	0%	12%	0%
None	95%	96%	94%	89%	98%	99%	97%	95%	85%	84%	71%	73%
Redemption												
Investor Option	19%	17%	13%	12%	20%	22%	19%	24%	33%	24%	12%	9%
Mandatory	1%	3%	2%	1%	2%	3%	3%	2%	0%	3%	0%	0%
None	80%	80%	85%	86%	78%	75%	78%	74%	67%	74%	88%	91%

[1] We based this analysis on deals having an initial closing in the period to ensure that the data clearly reflects current trends. Please note that the numbers do not always add up to 100% due to rounding.

[2] Includes flat rounds and, unless otherwise indicated, Series A rounds.

[3] Note that the All Rounds metrics include flat rounds and, in certain cases, Series A financings as well. Consequently, metrics in the All Rounds column may be outside the ranges bounded by the Up Rounds and Down Rounds columns, which will not include such transactions.

Bridge Loans

The median amounts raised for both pre-Series A loans and post-Series A loans increased for the second consecutive quarter, likely reflecting a desire to delay pricing an equity round. The median amount raised for post-Series A loans was particularly notable, increasing to $2.5 million in Q2 2016, markedly higher than in any of the prior five years.

Deal Terms – Bridge Loans

Interest rates declined for pre-Series A loans, with the percentage of deals with rates under 8% increasing from 74% of such deals in 2015 to 84% in 1H 2016.

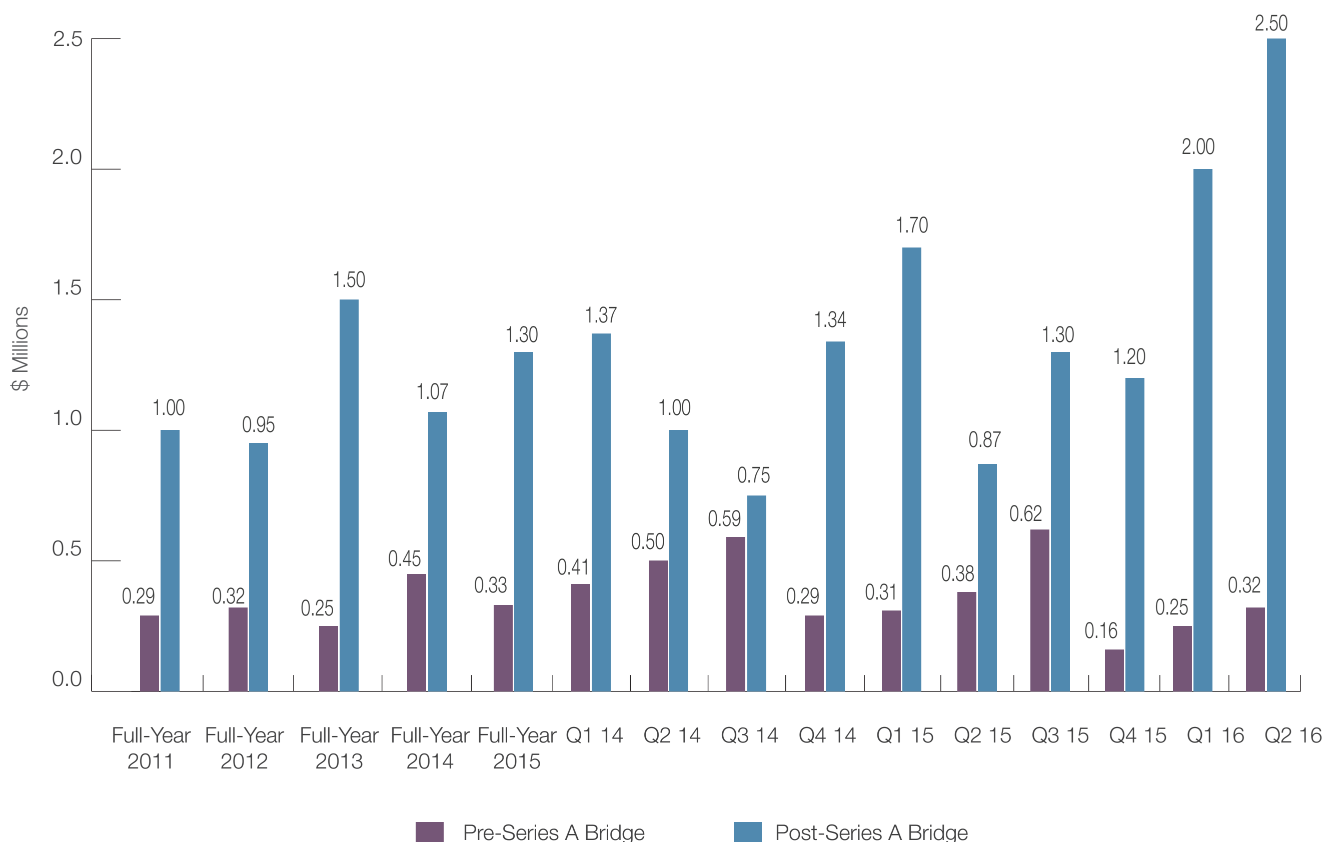
Conversely, for post-Series A deals, rates above 8% climbed from 13% of deals in 2015 to 21% in 1H 2016, likely reflecting increased difficulty in fundraising.

In addition, maturities for post-Series A loans lengthened. Maturities of exactly 12 months rose from 8% of all deals in 2015 to 31% in 1H 2016, although much of this increase came from a reduction in maturities of less than 12 months, which fell from 34% to 16%.

Price caps and discounts upon conversion became more popular for pre-Series A bridge loans. Price caps increased from 64% of deals in 2015 to 84% in 1H 2016, and discounts on conversion of pre-Series A loans also rose, from 78% of deals in 2015 to 87% in 1H 2016. On the other hand, the size of discounts dropped, with the percentage featuring a discount of over 20% declining from 16% of such loans in 2015 to 7% in 1H 2016.

Again, the reverse was true for post-Series A bridge loans. Conversions subject to a price cap dropped from 26% of loans in 2015 to 14% in 1H 2016, and post-Series A loans converting at a discount dropped from 71% of deals in 2015 to 63% in 1H 2016. The amount of discounts over 20% for such loans also declined from 27% of deals in 2015 to 17% in 1H 2016.

Median Amount Raised – Bridge Loans



Bridge Loans – Deal Terms (WSGR Deals)[1]

Bridge Loans[1]	2013 Pre-Series A	2014 Pre-Series A	2015 Pre-Series A	1H 2016 Pre-Series A	2013 Post-Series A	2014 Post-Series A	2015 Post-Series A	1H 2016 Post-Series A
Interest rate less than 8%	70%	72%	74%	84%	46%	43%	54%	49%
Interest rate at 8%	29%	22%	19%	9%	34%	42%	33%	30%
Interest rate greater than 8%	1%	6%	7%	6%	20%	15%	13%	21%
Maturity less than 12 months	3%	12%	17%	13%	29%	24%	34%	16%
Maturity at 12 months	19%	16%	9%	9%	38%	39%	8%	31%
Maturity more than 12 months	78%	71%	74%	78%	33%	37%	58%	53%
Debt is subordinated to other debt	25%	22%	15%	19%	56%	48%	38%	39%
Loan includes warrants[2]	4%	5%	3%	6%	34%	19%	25%	32%
Warrant coverage less than 25%	0%	20%	100%	100%	50%	69%	47%	50%
Warrant coverage at 25%	0%	0%	0%	0%	12%	0%	7%	0%
Warrant coverage greater than 25%	100%	80%	0%	0%	38%	31%	47%	50%
Principal is convertible into equity[3]	100%	98%	93%	97%	94%	94%	86%	83%
Conversion rate subject to price cap	68%	67%	64%	84%	14%	23%	26%	14%
Conversion to equity at discounted price[4]	91%	81%	78%	87%	59%	73%	71%	63%
Discount on conversion less than 20%	17%	10%	11%	19%	16%	25%	25%	42%
Discount on conversion at 20%	60%	72%	73%	74%	46%	44%	47%	42%
Discount on conversion greater than 20%	22%	17%	16%	7%	38%	32%	27%	17%
Conversion to equity at same price as other investors	9%	16%	18%	10%	35%	24%	25%	26%

[1] We based this analysis on deals having an initial closing in the period to ensure that the data clearly reflects current trends. Please note the numbers do not always add up to 100% due to rounding.

[2] Of the 2013 pre-Series A bridges that had warrants, 33% also had a discount on conversion into equity. Of the 2013 post-Series A bridges with warrants, 24% also had a discount on conversion into equity. Of the 2014 post-Series A bridges with warrants, 38% also had a discount on conversion into equity. Of the 2015 post-Series A bridges with warrants, 58% also had a discount on conversion into equity. Of the 1H 2016 post-Series A bridges with warrants, 18% also had a discount on conversion into equity.

[3] This includes notes that provide for voluntary as well as automatic conversion.

[4] Of the 2013 pre-Series A bridges that had a discount on conversion into equity, 2% also had warrants. Of the 2013 post-Series A bridges that had a discount on conversion into equity, 15% also had warrants. Of the 2014 post-Series A bridges that had a discount on conversion into equity, 10% also had warrants. Of the 2015 post-Series A bridges that had a discount on conversion into equity, 21% also had warrants. Of the 1H 2016 post-Series A bridges that had a discount on conversion into equity, 7% also had warrants.

An Interview with Charlie Bonello and Matt Harrigan of Grand Central Tech

Wilson Sonsini Goodrich & Rosati partner Sacha Ross recently sat down with Charlie Bonello and Matt Harrigan, the co-founders and managing directors of Grand Central Tech (GCT), a unique New York City-based accelerator. Among other topics, Charlie and Matt discuss the mission and growth of GCT, the New York start-up landscape, and recent trends among cohort applicants. Below is a selection of highlights from their discussion.

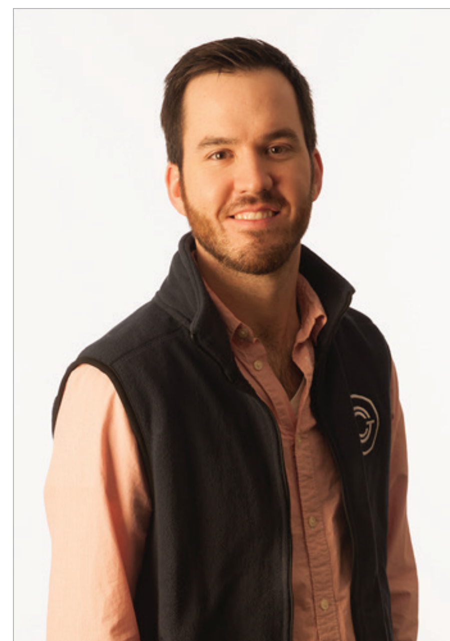
Charlie Bonello

Sacha: Tell us a little about Grand Central Tech.

Charlie: Now about two-and-a-half years old, Grand Central Tech is a tech accelerator with a bit of a spin. The typical tech accelerator works by taking in very early-stage companies, giving them $50k or $150k, taking 10 percent equity in the companies, and spending three months teaching them how to pitch, culminating in a demo day.

We're different for a lot of reasons. First, we're located in Facebook's former New York headquarters overlooking Grand Central, hence our name. It's a beautiful 15,000-square-foot office, a great place for engineers and businesspeople to work. We've been given the space by the Milstein family, one of the great New York real estate families. They've given the space to us for free with the goal of creating a single point of density for the best tech companies in New York.

We have a two-part mission. The first part is a social mission to leverage all of New York's key competitive advantages to the benefit of all stakeholders and to widen the aperture of who has access to the benefits of the tech economy. In practice, we do a few things toward that end. The first is the selection of our companies. We receive over 1,000 applications each year and we end up choosing a class of 18-20 companies. That's less than a 2 percent acceptance rate. Interestingly, now that we're in our third class, if you look across our entire portfolio, about 50 percent of our companies are founded by women, and if you add in veterans and underrepresented minorities, that figure increases to two-thirds of our companies. We're very proud of that, because we don't even pay attention to those numbers until after we've chosen what we think are the very best companies working on the biggest opportunities.



Matt Harrigan

We also have a great internship program. We've partnered with a number of private and public schools and they send us their best recent graduates, whom we place as interns with our companies for the summer. It forces our companies to be great corporate citizens, but it also helps them; 85 percent of these students have been offered paid ongoing work with their companies after the conclusion of the program. It puts the haves and the have-nots on the same level, since nobody cares what your zip code is or where you're from—it's about what you want to build.

In addition, we have a wonderful female founders conference every year called the "2X in Tech Conference." We bring in 250 of the top female founders—as well as future female founders—for a day focused on hands-on business learning that's free for all attendees.

Lastly, in our code of conduct there's something called the GCT pledge, which commits every company that enters to interviewing at least one woman, one veteran, one veteran spouse, or one person of color for every open position it has.

This stuff is central to what we do and is part of our DNA, but it really only works if we're able to fulfill the second part of our mission, which is getting the very best companies that are working on the biggest opportunities. We do that by offering the best resources on the best terms.

Every company that's accepted into GCT gets a full year in our space and access to interns, mentors, and expert legal, PR, growth, and accounting work from our growth partners, including WSGR. We also have eight wonderful corporate partners that work with our companies to leverage their scale to serve them, in-house recruiters, and a global network of investors. We've really gone to great lengths to find the best in class around. For all that, we take no equity.

Sacha: To people reading this, that may seem very altruistic and socially minded, and not something you typically see in the business world. Would a start-up ever say no?

Matt: I'll try to get to the heart of your question, which is: "Are we insane?" GCT is a slow play. Especially in venture, everyone is used to the fast play. We started out by asking ourselves, how can we attract the absolute best companies? We decided that the best way to do that was to offer an unbeatable value proposition. Such a proposition is difficult to sustain, since it's very expensive to offer, but we were betting that, in the long term, we'd be able to overcome any debt we'd take on as a result of that offering. So, first and foremost, remember that the Milsteins are giving us the space for free, so our overhead versus your standard business that operates 15,000 square feet of space in Midtown Manhattan is dramatically lower, which means our revenue needs are much lower.

"In order to do something like this, you really have to be mission driven. It has to light you on fire from the inside, and that's precisely what it does for us."

— Charlie

What we've found in terms of revenue generation is that once we've succeeded in attracting the absolute best start-ups in New York City—and we think we've done that—there's a wide range of corporations in the area that are interested in interacting with entrepreneurs of that caliber. They've dealt with other start-up accelerators. They've run their own internal innovation efforts. I think many of them have been left wanting—they felt those programs weren't worth the investment because the caliber of talent wasn't at the level needed for meaningful business opportunities to reveal themselves.

At GCT, it's different. We're finding that all of our corporate partners, who are responsible for our operating budget, are not just committing meaningful resources, they are re-upping annually to continue working with us.

In short, we attract the best start-ups with an unbeatable value proposition that sounds insane, but because of it, we're able to entice the corporate world to interact with our companies—and this is the great benefit of our companies, because they're gaining access to scale, to meaningfully sized customers or test beds to ensure that their technologies are viable.

Sacha: Do you think this would work anywhere else in the world, or under any other circumstances?

Charlie: In order to do something like this, you really have to be mission driven. It has to light you on fire from the inside, and that's precisely what it does for us. We think we've built a blueprint for how you engage an entire ecosystem and make the pie bigger for everybody in a substantial way. That we've chosen to do it in the largest, most complicated, and most expensive marketplace in the entire world shows it can work somewhere else.

We're now in our third class, but what we realized midway through our first class was that one of the most important things we were able to build for our companies was community. They loved being around each other. They built camaraderie, trust, and an ability to work with one another, which made everybody better. And they wanted to stay together, so if we wanted to keep them, we had to find a way to accommodate them.

So, in 2014, we built a 40,000-square-foot co-working space on the 16th floor of our building. Almost every company has graduated into the space. There's no compulsion for them to do so, and no contract. That means we've been able to capture, retain, and continue working with companies throughout their life cycles. Our ability to attract great companies and grow our business led us to win a significant grant from New York City to build out an additional 50,000-square-foot floor in the same building to focus on later-stage companies working on urban tech. That brings us to over 100,000 square feet and about 100 companies, giving us New York's single-largest tech-focused footprint and making us its most selective, most inclusive organization. We're really proud of that.

Sacha: Let's talk about how selective GCT is. You start with thousands of applications and you narrow them down to 18 spots. How do you select the top companies?

Matt: Our application window closed on April 1 this year, and Charlie, me, and our third partner, Michael, read every single application. Honestly, about half you can pass on quickly. These are people who have interesting ideas, but we're looking for concepts that are much more tightly wound and viable to even consider. So, there's an initial culling that's pretty straightforward.

From that point, we re-read the remaining applications and look for reasons to believe. We ask, is the founding team familiar with the industry they're attacking? Do they have a pedigree in the industry? Have they been together as a team for some period of time? Have they attracted investment? Have they attracted notable customers? Do they have any wins on the board to demonstrate market validation for their product or business idea?

Sacha: Since you've been operating, have you changed or adapted your approach?

Charlie: We got about 500 applications for our first class. Then in the second class, we doubled to around 1,000. In the third class, we saw a few more.

We built a tighter, more thorough machine. Recruiting never really stops for us, but during the application period, we have an incredibly thorough process that engages everybody on the team to leverage their entire networks. I don't think there's a meetup that somebody from our team doesn't attend or offer to host, a LinkedIn group that doesn't get messaged, a listserv that doesn't get a note, a person that doesn't get invited to come in for a tour. While a lot of people are attracted to GCT, we're also aggressive about getting out there because we don't want to miss out on any great companies.

> "We've moved past the era when companies were able to successfully raise an A round based on growth alone. Now there needs to be more of a path toward revenue."
>
> — Matt

Sacha: Along with the increase in the number of applications, are you seeing an increase in the quality of the companies?

Matt: Yes, and we think GCT's model is becoming more and more relevant. What we're hearing from the venture community is that the Series A round—and definitely the B round—is much more predicated on whether or not our companies have reached a milestone related to having major proofs of concept that are validated, actual customers, or meaningful revenue coming in.

We've moved past the era when companies were able to successfully raise an A round based on growth alone. Now there needs to be more of a path toward revenue. At the same time, the corporate world has realized you can't just wear blue jeans and t-shirts, turn a conference room into an innovation lab, and call it a day. Those dollars tend to not be well spent. So, you have this realization that's happening on both sides of the equation. Start-ups are realizing they need to engage with the corporate world with larger scale and potential customers

sooner in their life cycles. Meanwhile, the corporate world is realizing that the most likely place for them to find innovation is on the street and that at GCT they're primed to find premier-caliber start-ups. GCT is creating this frothiness that's mutually beneficial, and more start-ups are attracted to environments where they can notch those wins early in their life cycles.

> "We're starting to see other dollar sources coming into play. It's not necessarily just angels that are playing in the earliest rounds; there are a lot of micro VCs getting more and more active, and moving more quickly."
>
> — Charlie

Charlie: A lot of the companies coming to GCT wouldn't go to another accelerator because that economic exchange doesn't make sense for them, and because they want to be part of a community where they can continue to lend their know-how.

In our first class, Peter Lurie, CBO and co-founder of Mast Mobile, was a participant. He was one of the founders of Virgin Mobile. In our second class we had Patrick Sullivan from RightsFlow, which sold to YouTube for millions of dollars in 2011; Marleen Vogelaar, who's a co-founder of Shapeways; Alexis Maybank, who's a co-founder of Gilt; and Brad Hargreaves, who's a co-founder of General Assembly. In this year's class, we have Joe Meyer, formerly the CEO and president of HopStop, which sold to Apple for over a billion dollars, and Kimmy Scotti, who built a billion-dollar-plus business at Script Relief.

Sacha: Your previous classes have all been successful. What are your predictions for this cohort?

Charlie: For this class, we've skewed a little smaller in team size, though not in funding raised already, which means there's more upside from a headcount growth and revenue growth perspective. But that also means that another company that raises, say, $24 million in 12 months is probably smaller.

On average, the macro venture scene is different. It's gotten more difficult for companies to raise dollars. But it's weeding out a lot of the noise and consolidating a lot of the wins. You're starting to see a lot more breakaway winners at the early stage that can consolidate around a specific industry or need.

We're also starting to see other dollar sources coming into play. It's not necessarily just angels that are playing in the earliest rounds; there are a lot of micro VCs getting more and more active, and moving more quickly. And frankly, a lot of strategic dollars are moving more quickly.

Matt: In terms of quality, is this class as good as or better than any of our previous classes? Success at this point will be determined by the macro environment. Much was made of the bubble popping, and I think we're all starting to feel that the bubble didn't pop, it just compressed a little—and that was appropriate.

Technology is disrupting every industry, and that isn't going to stop. Look at Uber, Airbnb, Dropbox, or Facebook. So this isn't a total repudiation of an industry vertical, which is what you had in the 2000s. Instead, we need to train those dollars and resources toward problems of broader importance, as opposed to the next Tinder for dogs. GCT really concentrates on finding companies that are challenging themselves to come up with real breakthroughs. Those companies will always find interest.

Sacha: Are you seeing any different trends from the types of companies you're admitting?

Charlie: Maybe not from the companies we've been admitting, but in the application pool, we've seen three big trends. The first is the focus on corporate wellness and HR tech. People are increasingly concerned with ways they can make their best employees happier, more engaged, more committed, and more productive. You're seeing everything from training platforms to engaging mechanisms. One of our companies, Oh My Green!, does everything from snacks and snack management in an office—with a really robust back-end and supply chain software system—to yoga, mental health, and in-office massages. It might sound trite, but when you're managing 25 floors in a building like this, you'd rather have people eating apples, instead of the bagels we're scarfing down right now.

We're also seeing a lot of healthcare companies. That's everything from bioengineering, RNA, and therapeutics to making healthcare more accessible for consumers. The big name in that is obviously Oscar, but you're also starting to see companies like Maven Clinic and Nomad Health.

The last trend is that of artificial intelligence. I think a lot of people are slapping the "AI" or "bots" title on what is traditionally just called "software," and that's fine. But we're also starting to see some real delivery of value through these platforms.

Matt: AI comes to mind for me as well. It's really impressive. Reading a thousand applications, you're seeing people pouring their blood, sweat, and tears into a vision, and whether you buy it or not, there's something inherently impressive about that.

Sacha: As an integral part of the New York landscape, how do you view the state of the New York start-up scene?

Matt: Charlie has a wonderful theory around reverse manifest destiny—money and talent are flowing back East toward New York in a big way. For instance, the biggest hit in San Francisco for the last 15 years has been tech of one stripe or another. The biggest hit in New York is *Hamilton*. The coolest thing going on in New York is Broadway, and it has nothing to do with tech, which is really cool.

As tech becomes more of a broadly understood industry, it's no longer appropriate for it to define the entirety of the culture. It used to be this niche that had its own counterculture. But as a counterculture becomes dominant, it can feel a little suffocating. We're seeing a lot of people coming back East, saying: "I want to be a part of a more dynamic economy. There's more opportunity in that. I'll enjoy life more as a result of having different things happening around me." To Charlie and me, who are both native New Yorkers, that's something we both love about New York and we're not particularly shy about saying that.

That's just at a macro societal level. At a lower level, New York has responded. We've got Cornell Tech. NYU has made impressive strides with its Tandon School of Engineering. Columbia and CUNY are doing a great job. Educational pipeline organizations like the ones that Kristen Titus is running at City Hall are incredibly impressive. So not only is New York an interesting place to found your business because it's an interesting place to live; not only is it an interesting place to found your business because there are more corporations here that can serve its customers and greatly influence your trajectory than any other city in America; but there's also a growing and thriving talent base here. All the ingredients are coming together nicely.

New York is open for business. It's where people are chasing not only their dreams, but also chasing returns and upsides—in their lives, in their investments, and in their work. It's a game of money ball. We see that even within New York itself.

Sacha: What parts of the New York ecosystem, if any, do you think need to mature or catch up the most?

Matt: That's a good question. We're getting there, but the two core areas are talent development and venture sophistication.

If you want growth dollars, you're still looking to the West Coast. New York has done great at growing funds and the VC community to a point, but when you get to the very last stages of the company's success, the large money is still out West. That's the last piece to really be developed. Interestingly, you're starting to see traditional banking in New York starting to pay attention to this last mile, and maybe that's where we close the gap. Or maybe it's Andreessen Horowitz or Kleiner Perkins coming to New York and opening offices here.

"New York is open for business. It's where people are chasing not only their dreams, but also chasing returns and upsides—in their lives, in their investments, and in their work."

— Matt

Then there's talent. Stanford, Berkeley, and Cal Poly have been kicking out talent for a long time. You've got young people

whose parents have been in this industry and who are now in the industry too. That's powerful. By contrast, New York still has some runway there, but it's closing the gap.

"It's a profound notion to think that you can incubate start-ups, help them materially toward their success, and keep them in a vertical footprint. It's like re-imagining the skyscraper as an incubator in itself."

— Charlie

Charlie: For every courageous, thoughtful corporation out there trying to engage with the ecosystem, there are nine with their heads in the sand, flailing around in the water without a life preserver, and they need to find a means of engaging, or they're going to get passed by.

Sacha: Looking ahead, what's next for GCT?

Charlie: That's a key question we're thinking about a lot right now. We have the unique opportunity throughout New York to continue to grow our base. By that I mean, quite literally, a partner owns the building in which we operate, and they've demonstrated remarkable resilience and commitment to both New York and to us, so the opportunity is to continue building out our footprint and consolidating some of these wins. There is certainly a missionary zeal to spreading the word of GCT elsewhere, and step zero is building up the A-team, building infrastructure that can scale beyond our four walls, and bringing it elsewhere. If you're not on the way up, you're on the way down, so we're definitely contemplating what that looks like for us. We have plenty of room to grow within our building and intend to continue compounding the value of our existing community. It's a profound notion to think that you can incubate start-ups, help them materially toward their success, and keep them in a vertical footprint. It's like re-imagining the skyscraper as an incubator in itself.

Sacha: How does someone get involved with GCT? Do you have any inside tips on how to get noticed or maximize your chances of being accepted?

Charlie: Our annual application process opens in March and closes at the end of April, which is a great time to come in. Sign up for our mailing list at grandcentraltech.com. We're constantly looking to meet great entrepreneurs. I'm a little bit of a psychopath—I respond to all emails within 24 hours. But it's really about having conviction, having an edge, and driving forward, because we're not king makers here. We're certainly proud of what we've built, but we're looking for companies that we can help make better.

Sacha: Are there events people can attend before March where they can see the space and what you've built?

Charlie: A great event to attend is our 2X in Tech Conference. Now, obviously that event caters to a specific segment of the population, but it's coming up in October or November. That's a great opportunity to engage with GCT. There are other events as the year goes on, but we tend to keep a low profile on our events.

Sacha: Is there anything else you'd like to share?

Charlie: We're grateful for Wilson Sonsini Goodrich & Rosati's continued support. We've spoken to a lot of lawyers and WSGR is a place with dynamic, thoughtful partners. We're also excited for New York and about playing a role in its continued growth. This is the work of our lives and we're excited about what the coming years will bring.

Matt: I concur with Charlie's enthusiastic appreciation for WSGR. You guys have really been very helpful to us and to our companies.

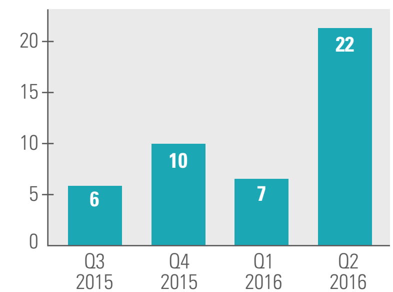
Sacha: We appreciate that. We also appreciate how helpful you have been to our clients. We have had a lot of clients that have gone through GCT and it's a tremendous opportunity.

Matt: That's the last piece to go out on. If you're reading this and your company is at all oriented toward urban tech, our space is opening very soon. We'll be filling it over the next couple of months, and you can contact either me at matt@grandcentraltech.com, or Charlie at charlie@grandcentraltech.com. We'd love to hear from you.

theBoardlist Index Shows Growth in Number of Women Board Members

According to newly released data from WSGR partner organization theBoardlist, impressive strides have been made over the past year toward the organization's mission of bringing more gender diversity to tech company boards.

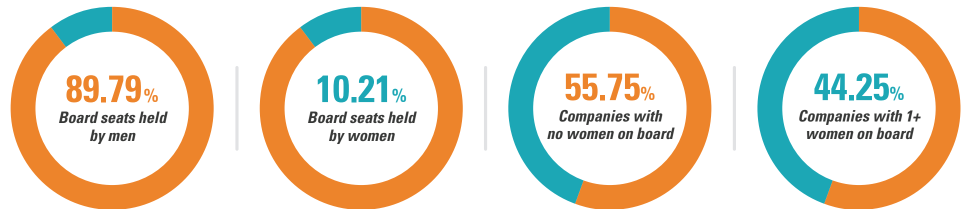
Specifically, 45 open tech company board seats have been filled by women over the past year, including 22 during the second quarter of 2016:



In addition, theBoardlist analyzed the gender composition of U.S. and European unicorn company boards and found the following:

Women on Unicorn Boards

(as of 6/30/16)

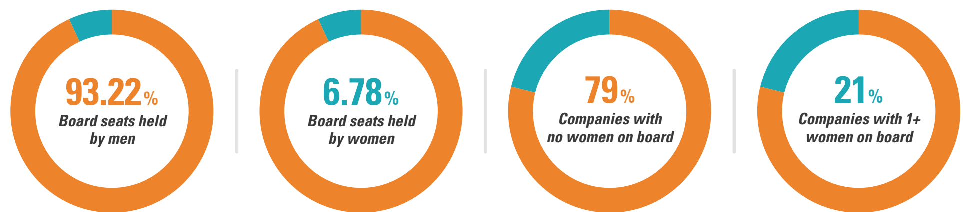


*Data pulled from publicly available sources

Further, theBoardlist analyzed the gender composition of a random sampling of 200 of its VC members' portfolio company boards, and found the following:

Women on Private Tech Company Boards

(as of 6/30/16)



*Companies are privately held tech companies in various stages of growth; data pulled from publicly available sources

Published quarterly, theBoardlist Index tracks the number of private and public company board seats filled by women. Numbers are pulled from publicly available data, as well as theBoardlist's internal placement data. For additional information, please visit https://theboardlist.com/research.

The mission of theBoardlist, which recently celebrated its one-year anniversary, is to create the leading talent marketplace globally to connect thousands of great women leaders with thousands of great growth-stage tech company board opportunities. theBoardlist is a project of #choosepossibility, which was founded in 2015 by technology executive and entrepreneur Sukhinder Singh Cassidy. Among other things, WSGR's involvement has included helping to identify women board candidates and assisting with the training of women executives on how to be effective board members. To learn more, visit https://theboardlist.com.

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For more information on the current venture capital climate, please contact any member of Wilson Sonsini Goodrich & Rosati's entrepreneurial services team. To learn more about WSGR's full suite of services for entrepreneurs and early-stage companies, please visit the Entrepreneurial Services section of wsgr.com.

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