



PAUL A. GOMPERS

## edocs, Inc. (B-2): Jonathon Guerster

Jonathon Guerster sat in his office and looked over the term sheet that he had just handed to Kevin Laracey, founder of edocs. The term sheet looked very reasonable, even though it had been hastily drafted. For Guerster, edocs represented a huge opportunity, but perhaps an even larger risk. He had been working with Charles River Ventures (CRV) for little more than three months and had yet to “do a deal.” He had been brought on board to provide expertise in e-commerce and the Internet. Now he had his chance. He appreciated the opportunity in online bill presentment and felt that the market would be very profitable. Guerster was, however, staking his future as a venture capitalist on the line. If edocs ultimately turned out to be a poor investment, he would find it tough going in the future. On the other hand, if the deal turned out well, he would establish his reputation inside and outside of the firm.

Although Guerster had several years of high-technology experience at an Internet start-up, he was still a venture capital novice. He was relying on the partners of CRV to help negotiate the terms. Guerster was trying to determine how hard he should bargain with Laracey. While Laracey had spent some time trying to acquire venture financing, Guerster knew that this term sheet would be like bait for other venture capitalists. One smell, and edocs would have five other offers to finance them. He wondered how he could avoid such an auction like atmosphere? How could he make Laracey, Moran, and Canekeratnee know that he wanted this to be an amicable partnership?

On the terms side, Guerster had little knowledge of what typical venture capital agreements looked like and how many terms were negotiable. Guerster was concerned about keeping Laracey as CEO in the long run. He was in his very early thirties and had relatively little senior management experience. While he had shown his tenacity and insight during the entire edocs idea generation process, Guerster wanted to ensure that CRV had the opportunity to bring in a new CEO at some point in the future. How could he convince Laracey that this was in his own best interests? Moran's addition to the founding team helped to reduce some of this risk, but this founding team had never worked together before and significant risks remained.

A related issue was Canekeratne's role in the firm. His family currently owned a significant fraction of the company, providing both financing and software development resources. As such, he was currently a member of the board of directors. Guerster did not know whether Canekeratne's background would make him the best board member. CRV had a method for crafting boards of directors. The board was meant to add credibility and contacts for the firm. If Canekeratne were on the board, it might mean one fewer member that could add value. Guerster was averse to creating a large, unwieldy board of directors. He felt that they just did not work well.

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Guerster also knew that Laracey would push on the valuation. He thought, however, that the \$10.5 million post-money valuation was extremely generous and fair. There was significant upside for all parties involved if things worked out well. It was very likely that, given the tremendous amount of venture capital that was being raised, edocs could easily raise money at a much higher valuation. Already reports were surfacing of deal price inflation as money began to chase deals, driving up valuations in the interim. Guerster knew that he would need to show some restraint if CRV got into a bidding war.

Finally, Guerster worried that while bringing in another venture firm would not be difficult, if he could not find an investor to co-invest, then the terms he had negotiated might be poor or the edocs might not actually be a great idea. He hoped to give CRV some wiggle room by imposing a penalty on edocs if no one would co-invest. The additional warrants that would be handed out (500,000) in the event of no co-investor showing an interest, would compensate for some of the negative news associated with just such an event. He hoped that Laracey, Moran, and Canekeratne would not view the condition as too onerous.

As he pondered what to do, Guerster opened a stack of mail on his desk. The collection of junk mail and bills seemed to grow every day and demanded ever increasing amounts of time to wade through. The phone on his desk suddenly rang. It was Rick Burns and Ted Dintersmith calling to get an update on the edocs negotiations. They wanted to see him in the conference room in five minutes. Guerster grabbed his cup of coffee and a notepad as he walked down the hall. His heart began to speed up as he thought about what he was going to say. After all, this was going to be the biggest check he had written in his life.