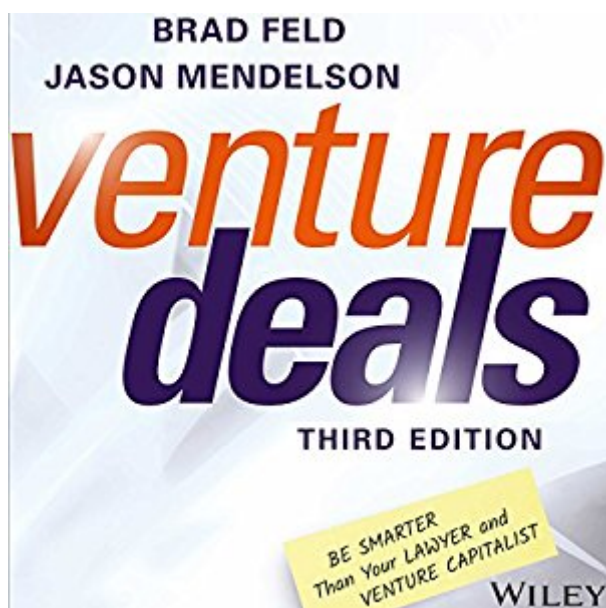


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Venture Deals, Third Edition: Be Smarter Than Your Lawyer And Venture Capitalist



Synopsis

Get the inside scoop on what venture capitalists want to see in your start-up. *Venture Deals* provides entrepreneurs and start-up owners with a definitive reference for understanding venture capital funding. More than an overview of the process, this book delves into the details of the term sheet, the players, the negotiations, the legalities, and more, including what not to do. This new third edition has been updated to reflect the new realities of today's intricate start-up environment: You'll learn how the decisions are made, what every item on the term sheet means, what's up for negotiation, and what's not. You'll discover the secrets to expanding your prospects, negotiating the right deal for your company, and figuring out the right balance of funding versus control. You'll see the process through the eyes of the venture capitalist, the angel investor, the syndicate, and the lawyer and develop a strategy that makes funding your company a win for all parties involved. This book is designed to help entrepreneurs succeed by bringing transparency to the venture capital funding process. Veteran investors walk you through the process from start to finish and beyond to help you: Understand how venture capital funds work and how investors decide to invest Learn effective negotiation tactics based on game theory Delve into the meanings behind the term sheet's economic and control issues Avoid common issues that sink deals at the seed, early, mid, and late stages Written by the experts at Foundry Group, this unique guide is expressly geared toward those on the other side of the table; instead of parsing investor-focused advice and working backward, you get actual insider information on what the people with the money want to see. If you're ready to take the next step for your business, *Venture Deals* is an essential listen.

Book Information

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Customer Reviews

I am a 2x entrepreneur who has raised over \$20M in VC funding, so when I say this is a must-read IF you want to raise money I am speaking out of experience. I wish I had this book in 2007, when I was trying to raise money. Terms like "double ratchet anti-dilution", "preferred", "participation", "vesting pool" or "liquidation events" were all terms that I was completely ignorant about. Worst yet, our attorneys had to explain these to me, and at \$750/hr it was a costly lesson. \$30 for this book would have saved me \$1,000's in legal fees, and hundreds of thousands in earnings. Well, but now that I have read this book my long-held view about VCs is further perpetuated. VCs are in the business to accomplish two things: (1) preserve their LP capital (i.e. don't lose money). and (2) earn outsized earnings to make up for all the duds (i.e. take everything you can). Note, "make the entrepreneur lots of money" is not on the list. This is something that the authors and most VCs, including Mark Suster on his talks/blogs will confirm this. As an entrepreneur you end up working for the VCs and will get wealthy if your company ends up being one of the 0.01% of VC companies that have very successful exits. If your company does just "great", or "OK" then expect to earn nothing from the exit - while the VC will walk away with 2x to 5x of the investment. This is not a bad thing if you expect to be in the 0.01%, but as that number indicates - it's not likely. So let's look at the main two things covered in this book that describe how VCs make money: VCs get their money from pension funds, alternative asset funds, government organizations, and basically any large sources of capital that is looking for risk-adjusted better-than-average returns. These are the clients of VCs and these are the folks they are accountable to. So if they don't produce the expected returns, or worse yet lose their capital they won't be in business for too long. To increase the odds of staying in business they do two things: (a) push the risk to the entrepreneur and all the "common" investors - do you own "common stock" or "preferred stock"? 'nough said. (b) make the ownership disproportionate to the proceeds of liquidation - meaning, if the ownership is split 50/50 between the founder and the VC then during the sale most of the proceeds (60% to 80%) will go to the VC. This is done by instruments like "preferred class", "full participation", "anti-dilution" and other similar means that create asymmetry in risk/reward. Just read chapters 4 and 5 of the book if you need to see examples. BTW: Does this sound familiar? We had a similar situation in the financial crisis of 2008. Banks created asymmetry in the housing market where they held disproportionate amount of the reward while the risk was pushed out to the homeowner and rest of the economy. So, if as an entrepreneur and you have created a business that is cashflow-positive, and has a great product

and market opportunity then think twice about the VC option. There are many other ways to raise money - loans, venture debt, private equity, and good ol' sales...Granted, this might not be the fastest way to grow your company and presents the risk of being overtaken by a well-funded company. But if you know that the market is big enough for more than one player (even if you're #2), and you want to keep a larger amount of your hard-earned money and reduce the influence of VCs then think twice about the VC option. But if you think your company is the next Facebook or Google then go for it. However, most founders end up working in "indentured servanthood" to VCs because they end up relinquishing control and ownership of the company while working long hard hours for little pay. Buy this book. Read it. Explore all your capitalization options. Weigh the costs and benefits. But whatever you decide make sure to focus on creating a kick-a\$\$ products for a kick-a\$\$ markets more so than about raising money. If you have a great company money will find you. Hope this helps your decision process.

This book is a MUST-HAVE for entrepreneurs. I'm currently a founder of a startup (www.CareerDean.com) funded by an accelerator in Silicon Valley. Since I am a first-time entrepreneur, there was a lot I had to learn, especially in regards to fundraising. I've read everything you can possibly read online, but nothing is as good as *Venture Deals*. Fundraising is hard, but they explain the process in a simple manner. The book not only explains fundraising concepts, but they present strategies as well. I was a bit hesitant at first because the authors are investors. They could have very well written the book to help themselves instead of the entrepreneurs. After reading the book, I'm fully convinced that this book was written to give the entrepreneurs a leg-up, and not the other way around. Why do I think this? Because since reading this book, I have talked to countless investors and VCs. What I've learned has given me an advantage. As a first-time entrepreneur, you'll make mistakes when raising money from investors. That's inevitable. But this book will help you make less mistakes. I'll be honest. I tried to find a pirated PDF online (I live on a startup budget...). I reluctantly bought it when I couldn't find any (though I'm sure you could if you tried hard enough). I don't regret it one bit. Even if you find a pirated version, you should buy this book because you'll want to keep referencing back to it. With the help of *Venture Deals*, our startup has already raised a good amount of money. I consider this one of my best investments.

I ordered Brad Feld's book *Venture Deals* a couple of months ago based on the reputation of both he and his coauthor, Jason Mendelson. I knew I'd surely get a few tips on the usual suspects; how much equity, negotiations, identifying the right long-term partnerships... all important but not really

new content for my overflowing business library. What I got was a virtual treasure trove of information written in such a casual format I almost had the feeling the words were being delivered by a caring older brother who's sharing candid experiences a younger sibling. As an entrepreneur and the president of a young company, I face difficult decisions daily particularly in the world of raising capital. Many of the well written books I have now sitting on a lonely shelf covered with dust in my office are clear on strategy and best practices but they fail to say how and offer tactical advice. This book is filled with practical information and reads like a peer to peer conversation. I have the now dog-eared well worn copy sitting on my desk and refer to it several times a week. No dust collecting on this one...!

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