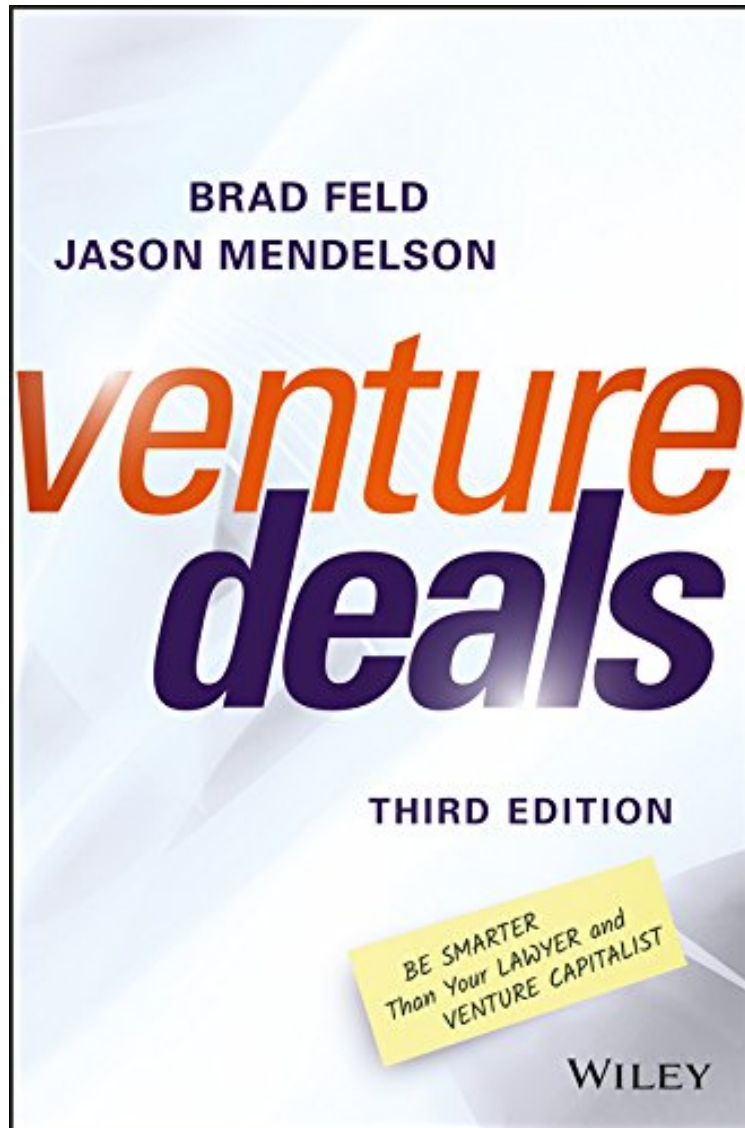


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Venture Deals: Be Smarter Than Your Lawyer and Venture Capitalist

Brad Feld, Jason Mendelson
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Brad Feld, Jason Mendelson : Venture Deals: Be Smarter Than Your Lawyer and Venture Capitalist before purchasing it in order to gauge whether or not it would be worth my time, and all praised Venture Deals: Be Smarter Than Your Lawyer and Venture Capitalist:

374 of 379 people found the following review helpful. for what it promises it is good... but do you want what it promises? By Harout 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. 0 of 0 people found the following review helpful. An excellent book that will make you think twice before raising VC money. By Leonardo Grinstein This is a great technical book, and it's very helpful for entrepreneurs. I wish I had read it before taking VC money some years ago. This book is more like a practical guide and resource. Venture Deals is not going to directly help you answer the question whether or not you should take venture capital. But it's going to help you a lot if you decide to use venture capital to fund your company. VCs' obsession in getting preferred terms and stock in early stage financing annoys me tremendously. A company in its early stage needs partners that are willing to experiment a lot to build a great business model. And partners need to be onboard on equal terms, sharing the same risks and goals. You can't time your success in an early stage venture, and it doesn't sound good to me to rush into "scale moderate" before finding a profitable product / market fit. Early-stage startup returns are binary - they either become failures or big successes with little in between that's meaningful to investors. That's why I don't understand sophisticated early stage investors so worried about terms that put the entrepreneur in a very uncomfortable position. In my view, this is not fair and not wise. It doesn't help their returns and it misaligns the shareholders' goals. Raising capital under preferred terms is a loan that looks nice on the balance sheet. After series A, when you already built an exciting business model and your focus is on scale, it makes sense to take loans (equity capital with preferred terms). You can build a reasonable financial model and be more comfortable with the "all in" approach. Although venture capital firms invest on "what could go right", they manage their investments obsessively on "what might go wrong." And on early stage investment, this obsession seems irrational. 2 of 2 people found the following review helpful. My New Go To Guide. By Julie Louly 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...!

Get the inside scoop on what venture capitalists want to see in your startup *Venture Deals* provides entrepreneurs and startup 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 startup 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 read.

"When I was a founder, VCs hoarded information about how venture capital terms worked to stack the deck in their favor. Along came Brad Feld and Jason Mendelson who started giving away the game by publishing how things worked on their blog. Now you can have all this information provided in an easy and concise format that evens the playing field." - Mark Suster, General Partner, Upfront Ventures "Ventures Deals has historically been our go to book for entrepreneurs on fund raising. It is a must read for anyone who is embarking on the fundraising process and now we are delighted that it has been updated for the current fundraising environment with all the changes that have happened the past few years." - Bill Aulet, Managing Director, Martin Trust Center for MIT Entrepreneurship "Having worked with Brad and Jason during the Internet bubble, I witnessed first-hand the experience they gained by doing deals that covered the entire range of issues an entrepreneur faces today. This is a must-read for both entrepreneurs and investors as it lets each side understand the terminology, structures and potential issues inherent in venture deals so they can focus on what really matters, regardless of which side they are on. Every entrepreneur who is raising or considering raising venture capital should read this book!" - Heidi Roizen, Operating Partner, DFJ "Feld and Mendelson pack a graduate-level course into this energetic and accessible book. The authors' frank style and incisive insight make this a must-read for high-growth company entrepreneurs, early-stage investors, and graduate students. Start here if you want to understand venture capital deal structure and strategies. I enthusiastically recommend." - Brad Bernthal, CU Boulder, Associate Clinical Professor of Law, Technology Policy, Entrepreneurial Law "Brad and Jason are undoubtedly among the most authentic VCs in the industry today. This book goes far beyond the nuts and bolts of term sheets and venture capital to give invaluable insights into the importance of building relationships based on trust. I'll definitely be recommending this book to all Kauffman Fellows and to every entrepreneur I meet across the world." - Jeff Harbach, President and CEO, Kauffman Fellows "I have been lucky to have Brad Feld as a mentor as a VC, and watch him advise companies as a board member. *Venture Deals* is your chance to get some of that advice and wisdom applied to your own startup. Don't miss the opportunity." - Jeff Clavier, Managing Partner, SoftTech VC "One of the most practical books on venture capital. Every entrepreneur (and their lawyer) should own a copy" - Mike Platt, Colorado Partner-in-Charge Acirc; Cooley LLP "We've worked with Brad Jason through the highs and lows and highs of a number technology investments. When risk takers share insight, read it. In the case of Brad and Jason, read it twice. We love their refreshing comfort with maximizing risk in the spirit of creating meaningful impact." - Tony Conrad, founder / CEO, About.me and Partner, True Ventures "Even if your lawyer or VC has done a lot of deals, you should read this book. Nothing hurts a company more than a bad deal structure usually not discovered until a year or two later. This will allow you to look for the pot holes and avoid a lot of pain." - Lesa Mitchell, Managing Director, Techstars Kansas City "My biggest nightmare is taking advantage of an entrepreneur without even realizing it. It happens because VCs are experts in financings and most entrepreneurs are not. Brad and Jason are out to fix that problem with *Venture Deals*. This book is long overdue and badly needed." - Fred Wilson, Managing Partner, Union Square Ventures "A must-read book for entrepreneurs. Brad and Jason demystify the overly complex world of term sheets and MA, cutting through the legalese and focusing on what really matters. That's a good thing not just for entrepreneurs, but also for venture capitalists, angels, and lawyers. Having an educated entrepreneur on the other side of the table means you spend your time negotiating the important issues and ultimately get to the right deal faster." - Greg Gottesman, Managing Director, Madrona Venture Group "*Venture Deals* is a must-read for any entrepreneur

contemplating or currently leading a venture-backed company. Brad and Jason are highly respected investors who shoot straight from the hip and tell it like it is, bringing a level of transparency to a process that is rarely well understood. It's like having a venture capitalist as a best friend who is looking out for your best interests and happy to answer all of your questions." - Emily Mendell, Vice President of Communications, National Venture Capital Association

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"Feld and Mendelson pack a graduate-level course into this energetic and accessible book. The authors' frank style and incisive insight make this a must-read for high-growth company entrepreneurs, early-stage investors, and graduate students. Start here if you want to understand venture capital deal structure and strategies. I enthusiastically recommend." - Brad Bernthal, CU Boulder, Associate Clinical Professor of Law, Technology Policy, Entrepreneurial Law

"Brad and Jason are undoubtedly among the most authentic VCs in the industry today. This book goes far beyond the nuts and bolts of term sheets and venture capital to give invaluable insights into the importance of building relationships based on trust. I'll definitely be recommending this book to all Kauffman Fellows and to every entrepreneur I meet across the world." - Jeff Harbach, President and CEO, Kauffman Fellows

"I have been lucky to have Brad Feld as a mentor as a VC, and watch him advise companies as a board member. Venture Deals is your chance to get some of that advice and wisdom applied to your own startup. Don't miss the opportunity." - Jeff Clavier, Managing Partner, SoftTech VC

"One of the most practical books on venture capital. Every entrepreneur (and their lawyer) should own a copy!" - Mike Platt, Colorado Partner-in-Charge, Cooley LLP

"We've worked with Brad Jason through the highs and lows and highs of a number technology investments. When risk takers share insight, read it. In the case of Brad and Jason, read it twice. We love their refreshing comfort with maximizing risk in the spirit of creating meaningful impact." - Tony Conrad, founder / CEO, About.me and Partner, True Ventures

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From the Inside Flap

There has never been a better time for entrepreneurs to create a startup. With decreasing costs of getting started and operating a business, the ability to be a founder has become increasingly democratized across the globe. On top of this, the amount of funding sources has dramatically increased not only in number, but also in types, as non-traditional sources like crowdfunding and accelerators have become important players in the ecosystem. Today, an entrepreneur raising money has a lot more options than even just a few years ago. The question becomes "how does one evaluate these opportunities and maximize the result?"

Brad Feld and Jason Mendelson are back with version three of their Wall Street Journal and bestseller. Packed with the latest insights and emerging trends, the authors' thirty-plus years of collective experience are at your fingertips. Whether you need advice on raising money, negotiating a term sheet, selling your business, or really just want to have insider access into what makes venture capitalists tick, this book is for you. Brad and Jason discuss different stages of financings, the many types of different investors that might fund your company, as well as the different avenues of funding, whether they be traditional convertible debt and equity or one of the newer practices of crowdfunding and pre-

sales. Whether you are a new or seasoned entrepreneur, lawyer, venture capitalist, educator, or student of the industry, *Venture Deals, Third Edition* is the go-to-guide to navigating the venture landscape. For additional information, including term sheets and all the documents generated from the term sheet as part of venture financing, visit the authors' website at venturedeals.com.