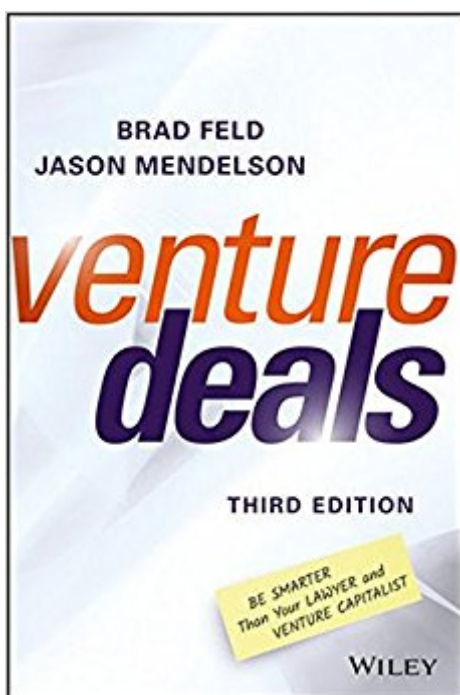


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# Venture Deals: Be Smarter Than Your Lawyer And Venture Capitalist



## Synopsis

Get the inside scoop on what venture capitalists want to see in your startup as you hit the fundraising trail. This is the highly anticipated third edition of the best-selling book which has become the definitive resource for understanding venture capital fundraising. Whether you are an entrepreneur, lawyer, student or just have an interest in the venture capital ecosystem, *Venture Deals* is for you. The book dives deeply into how deals are constructed, why certain terms matter (and others don't), and more importantly, what motivates venture capitalists to propose certain outcomes. You'll see the process of negotiating from the eyes of two seasoned venture capitalists who have over 40 years of investing experience as VCs, LPs, angels, and founders. They will teach you how to develop a fundraising strategy that will be a win for all parties involved. This book is designed to bring transparency to the venture capital funding process and includes such topics as: How to raise money; What terms matter and which ones don't; How to negotiate a fair deal for everyone; What makes venture capitalists tick, including how they are compensated and motivated; How companies are valued by venture capitalists; How all current structures of funding work, including convertible debt, crowdfunding, pre-sales and other non-traditional methods; How these particular issues change through different stages of financing (seed, early, mid and late); and How to avoid business and legal pitfalls that many entrepreneurs make. And as in the previous editions, this book isn't just a one-sided opinion from venture capitalists, but also has helpful commentary throughout from a veteran CEO who has raised many rounds of financing from many different investors. If you are ready to learn all the secrets and ins and outs of fundraising, *Venture Deals* is an essential read.

## Book Information

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## Customer Reviews

"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 [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 M&A, 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

“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 will 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 — "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 M&A, 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,

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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 earning to makeup 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 walkaway 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 lets 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](http://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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