Contents

F		:::
Foreword		xiii
Fred Wilson		
Foreword		XV
James Park	8.	
Preface	and the same of th	xvii
Acknowledg	Acknowledgments	
Introduction: The Art of the Term Sheet		1
	100 C	
Chapter 1	The Players	5
	The Entrepreneur	5
	The Venture Capita list	6
	Financing Round Nomenclature	9
	Types of Vencure Capital Firms	10
	The Angel Investor	11
	The Syndicate	13
	The Lawyer	14
	The Mentor	16
		4.0
Chapter 2	How to Raise Money	19
	Do or Do Not—There Is No Try	19
	Determine How Much You Are Raising	20
	Fundraising Materials	21
	Due Diligence Materials	28
	Finding the Right VC	28
	Finding a Lead VC	30

viii Contents

	How VCs Decide to Invest	31
	Using Multiple VCs to Create Competition Closing the Deal	34 35
Chapter 3	Overview of the Term Sheet	37
	The Key Concepts: Economics and Control	38
Chapter 4	Economic Terms of the Term Sheet	39
	Price	39
	Liquidation Preference	45
	Pay-to-Play	53
	Vesting	56
	Exercise Period	60
	Employee Pool	61
	Vesting Exercise Period Employee Pool Antidilution Control Terms of the Term Sheet Board of Directors Protective Provisions Drag Along Agreement	63
Chapter 5	Control Terms of the Term Sheet	67
	Board of Directors	67
	Protective Provisions	70
	Drag-Along Agreement	74
	Conversion	77
Chapter 6	Other Terms of the Term Sheet	81
·	Dividends	81
	Redemption Rights	83
	Conditions Precedent to Financing	85
	Information Rights	87
	Registration Rights	88
	Right of First Refusal	91
	Voting Rights	92
	Restriction on Sales	92
	Proprietary Information and Inventions Agreement	93
	Co-Sale Agreement	94
	Founders' Activities	95
	Initial Public Offering Shares Purchase	96
	No-Shop Agreement	97

	Contents	ix
	Indemnification	100
	Assignment	101
Chapter 7	The Capitalization Table	103
Chapter 8	Convertible Debt	107
	Arguments For and Against Convertible Debt	108
	The Discount	110
	Valuation Caps	111
	Interest Rate	112
	Conversion Mechanics	113
	Conversion in a Sale of the Company	115
	Warrants	116
	Other Terms	118
	Early-Stage versus Late-Stage Dynamics	119
	Can Convertible Debt Be Dangerous?	120
	Conversion in a Sale of the Company Warrants Other Terms Early-Stage versus Late-Stage Dynamics Can Convertible Debt Be Dangerous? An Alternative to Convertible Debt Crowdfunding Product Crowdfunding	121
Chapter 9	Crowdfunding	123
•	Product Crowdfunding	123
	Equity Crowdfunding	125
	How Equity Crowdfunding Differs	127
Chapter 10	How Venture Capital Funds Work	129
Gliaptei 10	Overview of a Typical Structure	129
	How Firms Raise Money	131
	How Venture Capitalists Make Money	132
	How Time Impacts Fund Activity	136
	Reserves	138
	Cash Flow	140
	Cross-Fund Investing	141
	Departing Partners	141
	Corporate Venture Capital	142
	Strategic Investors	144
	Fiduciary Duties	145
	Implications for the Entrepreneur	143
	imphotetono for the Entrepreneur	140

x Contents

Chapter 11	Negotiation Tactics	147
	What Really Matters?	147
	Preparing for the Negotiation	148
	A Brief Introduction to Game Theory	150
	Negotiating in the Game of Financings	152
	Negotiating Styles and Approaches	154
	Collaborative Negotiation versus Walk-Away Threats	156
	Building Leverage and Getting to Yes	158
	Things Not to Do	160
	Great Lawyers versus Bad Lawyers versus No Lawyers	162
	Can You Make a Bad Deal Better?	163
Chapter 12	Raising Money the Right Way Don't Be a Machine Don't Ask for a Nondisclosure Agreement Don't Email Carpet Bomb VCs No Often Means No Don't Ask for a Referral If You Get a No	165
·	Don't Be a Machine	165
	Don't Ask for a Nondisclosure Agreement	166
	Don't Email Carpet Bomb VCs	166
	No Often Means No	166
	Don't Ask for a Referral If You Get a No	167
	Don't Be a Solo Founder	168
	Don't Overemphasize Patents	168
Chapter 13	Issues at Different Financing Stages	171
	Seed Deals	171
	Early Stage	172
	Mid and Late Stages	173
Chapter 14	Letters of Intent—The Other Term Sheet	175
	Structure of a Deal	176
	Asset Deal versus Stock Deal	179
	Form of Consideration	181
	Assumption of Stock Options	182
	Representations, Warranties, and Indemnification	186
	Escrow	187
	Confidentiality/Nondisclosure Agreement	189
	Employee Matters	189
	Conditions to Close	191
	The No-Shop Clause	191

	Conte	nts xi
	Fees, Fees, and More Fees	193
	Registration Rights	193
	Shareholder Representatives	194
Chapter 15	Why Do Term Sheets Even Exist?	197
	Constraining Behavior and the Alignment of Incentives	198
	Transaction Costs	199
	Agency Costs and Information Asymmetry	200
	Reputation Constraints	201
Chapter 16	Legal Things Every Entrepreneur Should Know	203
	Intellectual Property	203
	Employment Issues	205
	State of Incorporation	206
	Type of Corporate Structure	207
	Accredited Investors	207
	Filing an 83(b) Election	208
	Section 409A Valuations	209
Authors' Note		211
Intellectual Property Employment Issues State of Incorporation Type of Corporate Structure Accredited Investors Filing an 83(b) Election Section 409A Valuations Authors' Note Appendix A: Sample Term Sheet Appendix B: Sample Letter of Intent Appendix C: Additional Resources		213
Appendix B: Sample Letter of Intent		223
Appendix C: Additional Resources		231
Foreword to t	he First and Second Editions	235
Glossary		237
About the Au	thors	247
Index		249
Excerpt from Startup Communities		261

http://www.phookshop.com