

You have a term sheet – maybe you have a couple term sheets. They’re somewhere between 3 and 50 pages, depending on who gave it to you. Oh my gosh, what do you do now?

The good news is there are only two things that matter in a term sheet. We’ll get right back to you with what those two things are.

Clint: Where does the term “term sheet” come from?

Jason: Term sheet comes from the idea that it’s a sheet, although it’s unfortunately not one page, that has the basis of all the terms that are going to make up the deal that you have with your venture capitalist. Somewhere between two, five, seven, nine pages. I’ve seen some that are 50 pages, unfortunately. Generally, it is a summary of the deal that you’re going to close which the lawyers go write, which will be documents that are about that thick if you print them out on a printer today.

Clint: All right. So, what are the two terms that matter?

Jason: The two terms that matter are economics and control.

As a venture capitalist I should only care about two things and you should only care about two things. If you find yourself fighting about things that don’t impact economics and control, then we’re fighting about the wrong things and you should probably take this as a sign that we’re not going to get along too well later in life.

Control is anything that allows one of us to control something. Who is on the board of directors, are there particular voting rights called protective provisions that I have and what are those – things like that are control mechanisms.

The economics are pretty simple. What’s the valuation of your company, in other words how much of your company am I going to buy for the money I’m putting in? Is there what’s called a liquidation preference that’s going to give me money back before you get your money? Things like that are about economics.

Outside of those two things, the rest doesn't really matter. We'll talk about them – registration rights, choice of law, and all that stuff – but if we're fighting about that we've got a problem already.

Clint: Once you have a term sheet, how similar are those terms to the actual terms that show up in the contract? Can I make some changes after the fact?

Jason: You can try to make some changes after the fact. Depending on who the VC is, if you're the entrepreneur, we'll have different reactions. Some people will be like, "Okay." Me, I get frustrated and say, "Wait a minute. A deal is a deal." Again, what does this say about our ongoing relationship for the next 10 years?

I really think that once you have a term sheet with a reputable VC firm and a reputable entrepreneur you should consider that deal done, outside of extraordinary situations where you find something in due diligence or along the process that changes the circumstances we thought we were in.