Twitter Thread by Romeen Sheth

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0/ Nothing pisses me off more than Lawyers ripping Founders off when putting investment docs together.

The worst part is most Investors aren't helpful - 85% push the bill to Founders.

As an ex-lawyer, I saw all the inside tricks.

Here's how to reduce your legal bill by 90%:

1/ First, it's important to understand how lawyers make $.

A legal bill has nothing to do with the end deliverable.

Wait what? That's right. Lawyers make money via the billable hour.

Regardless of quality, you get charged based on how many hours the lawyer(s) spent with you

2/ The second cost variable is hourly rate.

Hourly Rate is a function of seniority of the lawyer you are working with.

Why is this important? Because the hourly rates go up FAST at top law firms.

Junior Associates = ~$400/hr
Senior Associates = ~$1000/hr
Partners = $1000+

3/ Most financings are very routine.

This was obvious at Seed (hence YC Safe), but it's also the case at A.

The problem is, as a Founder:

(a) You don't know what you don't know
(b) You don't want to mess it up
(c) You want to close fast
(d) You want to move on to your biz

4/ And that’s how you get trapped.

If you let the lawyers run it, a financing process will easily cost you $150k+.

You need to do 2 things: (1) pick the Lawyer and (2) establish the ground rules.

5/ The first point is easy.

A 3rd or 4th Year Associate at a top firm can comfortably handle this for you.

By this point in their Legal career they would have been a part of at least 150 financings.

You don’t need to get Partners/Senior Partners involved.

6/ The second point requires more coordination between the Founder and Investor, but it’s critical to minimize lawyer involvement.

The lawyers absolutely should not be involved in the term sheet.

All commercial terms should be agreed upon / finalized pre Legal’s involvement.

7/ Once commercials are finalized, then get the lawyers involved.

1. Company's lawyers prepare the document package

2. Investor's lawyers receive docs / provide written comments

3. Company's lawyers read the comments

This is ALL async and should take no more than 10 hours

8/ Then it’s time for the joint meeting.

At this meeting, you need to have 4 key stakeholders:

1. Company side decision maker
2. Company lawyer
3. Investor side decision maker
4. Investor lawyer

Schedule a 5 hour meeting to go through every issue line by line.

9/ In the meeting, the Founder and Investor should take the lead.

1. Address each point
2. Negotiate it
3. Reach resolution

ONLY then engage the lawyers

4. Lawyers discuss language (in real time)
5. Lawyers agree on draft language

10/ After the meeting, keep the lawyer interaction async.

1. Company's lawyer drafts final documents. This shouldn't take long since language was already agreed to

2. Investor's lawyer provides feedback

3. Keep a small bucket of hours if sync is required to finalize

11/ Final Bill should be ~$15-20k

- Hourly Rate of 3rd/4th Year: $500
- Process should take no more than 35 hours

1. Doc package prep (10 hours)
2. Joint meeting (10 hours)
3. Final docs (10 hours)
4. Miscellaneous bucket (5 hours)

12/ In sum, nail 2 things:

1. Who's involved - avoid Partners like the plague

2. How you interact - don't preemptively engage and keep interaction mostly async

Lawyers should help YOU facilitate a financing process.

You shouldn't be facilitating their next lunch at Nobu.