



Ali Partovi @apartovi Sun Oct 17 21:55:34 +0000 2021

I once killed a \$125 million deal by being “too honest.” There are many ways to lose deals, lest you think last week’s story was my only painful blunder. This one hinged on a fateful encounter with Jerry Yang and involved Paul Graham (@paulg). Here’s what happened.... (1/n)

@paulg In 1998, I was a 25-year-old with dreams, running my first startup with Tony Hsieh, Sanjay Madan, & Alfred Lin (@Alfred_Lin). Our company, LinkExchange, was the web’s largest ad network. /2

My ultimate dream was to partner with Yahoo, the era’s dominant search engine. I pitched Yahoo our concept, “Keywords”: targeted text ads on search results. I was obsessed with search ads and tried to convince Yahoo they’d be better than banner ads. (This was pre-Google.) /3

After more than a year of pitching, Yahoo took the bait. They expressed interest in acquiring LinkExchange. /4

Meanwhile, I had a backup plan. If a Yahoo deal didn’t materialize, we’d join forces with Viaweb, an awesome younger startup whose ideas complemented ours. Their people were brilliant, and they’d built a system to monetize search via e-commerce commissions. /5

Over multiple trips to Cambridge, I wooed Viaweb and their CEO Paul Graham. While we each hoped to partner with Yahoo, I shared my vision of what we could build together instead. I proposed merging our startups. They seemed interested, and we hashed out rough terms. /6

When it rains, it pours. Just as our talks with Viaweb were nearing fruition, Yahoo offered \$125 million to buy LinkExchange. /7

As a financially-insecure immigrant, I knew this deal would change my life. It was more money than I’d ever imagined. We signed Yahoo’s offer, which required us to cut off all other talks (eg with Viaweb). /8

Such deals can take a month. I couldn’t contain my excitement. I told my roommates Alan and Mike, who also worked with me. We discussed it day and night. We fantasized about building search ads with Yahoo. I fantasized about buying a house for my parents. /9

Meanwhile, I hoped to keep the Viaweb door open. It wasn’t easy. I had to ghost Paul. I wasn’t allowed to respond to him, and I wasn’t allowed to tell him why. /10

Then came the momentous encounter. On the eve of signing the definitive final agreement, I met for drinks with Yahoo founder Jerry Yang, undisputed king of the Internet at the time. /11

I told Jerry how excited I was to join Yahoo. In my excitement, I told him that together we should also acquire this smaller startup, Viaweb. With Viaweb’s incredible tech and team, we could make Yahoo Search a powerhouse. /12

Jerry’s response was lukewarm. First, he had zero zeal for the search business. Second, he’d already heard of Viaweb: “Our guys looked at them. We weren’t that impressed with their people.” In hindsight, this should have been my cue to shut up. /13

I’m not sure what compelled me to speak. Maybe it was that I already considered myself on Jerry’s team and wanted to help Yahoo. Maybe it was that I knew Viaweb’s people were incredible, and I couldn’t let a mistake go uncorrected. Maybe it was the alcohol. /14

“Jerry, your guys are wrong: the Viaweb team is amazing. Their engineers are probably better than yours,” I said. Then, I stupidly added, “They are hands down better than us.” /15

“Interesting,” replied Jerry Yang. “Maybe we should take another look at Viaweb.” /16

A few days later, Yahoo called off buying my startup, citing an accounting technicality. I read it over and over in disbelief. Was there secretly another reason? Either way, goodbye, \$125 million. /17

It was devastating. All our employees heard, and it took the wind out of our sails. I told my roommates the whole story, and they agreed that I was an idiot. Dejected, I began trying to revive our backup plan with Viaweb. /18

I messaged Paul at Viaweb, and he didn't reply. Desperate, I sent him one email after another. It felt like Paul was now ghosting me. /19

A few weeks later, we read the news: Yahoo had acquired Viaweb. It didn't take me long to connect the dots. I'd been in love with both companies, and I'd lost both. /20

I rehashed this experience for months as we tried to recover from the blow. One lesson I learned: a deal isn't done until it's closed. No matter how much you want to be on the same side of the table as the other party, don't show your cards until the game is over. /21

Another lesson: be patient and learn when to keep my mouth shut. I'm still working on this lesson. This was also the lesson of my painful story from last week, where I lost a \$50 million offer from Steve Jobs with one false word.

<https://t.co/OyHKkBvT9J> /22

There are things I'm proud of in this story. While it was financially devastating and I let down our team, at least I didn't lose anybody's trust. My intentions were good, if naive. I helped both Yahoo and Viaweb. Business isn't just about winning; it's about helping others. /23

Also, I was right about search ads. /24

The lessons proved helpful 6 months later when Microsoft offered \$265M for LinkExchange. We didn't want to lose another deal. Lest they change their mind, we deliberately left some positive surprises for Microsoft to discover in due diligence. This is a story for another day. /25

P.S. As it turns out, Paul Graham later shared that perhaps being acquired by Yahoo wasn't that great.

<https://t.co/UkS4KTVMLH> It's no wonder he left Yahoo and went on to start [@YCombinator](#). /26

Paul also shared his side of this story in an interview published by [@JessLivingston](#) in her must-read book, "Founders At Work." /27 <https://t.co/gh0OQZz1Jj>

Livingston: So a few months later after this horrible low period, you have a great high period because you get bought by Yahoo. How did that happen?

Graham: We especially wanted to get bought by Yahoo. If you had asked us, "Who do you want to get bought by?" we would have said, "Yahoo." In fact, we did say that; we kind of spread the word that we saw Yahoo as the ideal acquirer.

We'd tried to do an online demo for Yahoo about 6 months before. We could do demos by phone where we'd talk people through editing a site and we could see from the log files where they were clicking. I tried to do a phone demo for Tim Koogle in the fall of '97, but he

couldn't even get to our server. It turned out some router was hosed halfway between us and them.

The way we really got onto their radar screen was through Ali Partovi. He'd had Robert and Trevor as teaching assistants in CS classes at Harvard a few years before. He had a startup called LinkExchange that was talking to Yahoo at the time, and their VC was Mike Moritz, who was also Yahoo's VC. In the end they got bought by Microsoft instead, but not before they'd told Yahoo about us.

If you're interested in the pre-Google history of search ads, see this old essay of mine. /END THREAD
<https://t.co/Kp4ukmmDLf>