

**Common Term Sheet Defined Terms**

**Valuation & Capital Structure**

**Pre-Money Valuation**

The Company's valuation before new investment. Typically includes the value of preexisting Safes/Convertible Securities.

**Post-Money Valuation**

The valuation after investment (pre-money valuation plus new funds).

**Fully Diluted Capitalization**

For equity financings, the total number of shares that exist if all stock options, warrants, SAFEs, convertible notes, and preferred stock are converted into common stock, including the entire option pool (granted and ungranted) when calculating ownership.

**Option Pool Reserve**

Shares set aside for future hires and refresh grants to service providers. Companies are expected to increase the available shares in the pool immediately before the financing closes to ensure there's runway for new grants post-closing.

**Investor Protections**

**Requisite Holders**

The defined group (usually a majority or supermajority) of preferred stockholders whose consent is required for certain key decisions or amendments.

**Liquidation Preference**

Defines the order of seniority and multiple on repayment (if any), with respect to payment of proceeds in connection with a liquidation event.

- *Preference:* Holders of Preferred Stock receive proceeds first and in preference to holders of common stock. Different series of Preferred Stock will be either treated '*pari passu*' or stacked with the more recently issued series taking preference over older series.
- *Non-Participating Preferred:* The holders of Preferred Stock receive the greater of (i) their original investment multiplied by the stated multiple (often 1x) or (ii) proceeds calculated based on a pro rata basis after converting their shares of preferred stock into shares of common stock.
- *Participating Preferred:* The Investor first gets paid their liquidation preference (e.g. 1x their investment) and then receives an additional share of the remaining proceeds with common holders on a pro rata basis.

**Anti-Dilution Protection**

Adjusts the conversion price (price per share at which the shares of preferred stock convert into shares of common stock) if the Company later issues shares at a lower price ("down round"), subject to certain exceptions.

- *Weighted-Average Formula:* Adjusts the conversion price proportionally based on the amount and price of new shares. Balances fairness between founders and Investors.
- *Full Ratchet:* Resets the conversion price entirely to the new, lower share price, heavily diluting founders. Much more Investor-friendly and less common in most deals.

### **Protective Provisions**

Veto rights that prevent the Company from taking major actions (such as selling the Company, issuing new senior stock, or incurring large debt) without Requisite Holder approval. Protective Provisions give Investors a say in significant Company transactions that typically create potential downsides for the Investors.

### **Additional Rights**

#### **Pro Rata Rights (aka Participation Rights, Right of First Offer)**

Major Investors — those who meet a negotiated minimum investment threshold (e.g. \$1 million) — are typically given the right to purchase their pro rata share of any new securities issued by the Company in future financings, subject to negotiated exceptions and thresholds. Investors with pro rata have the right but not the obligation to invest in future rounds. Such rights can also be separately negotiated in a side letter.

#### **Information Rights**

Allows Major Investors to receive regular financial statements, budgets, and operational updates. Helps them monitor Company performance and provide updates to LPs.

#### **Drag-Along Rights**

If a majority of stockholders and the board (some variations on the applicable approval thresholds exist) approves a change of control, then all stockholders must go along with the transaction, ensuring no small group blocks an exit.

#### **Rights of First Refusal (ROFR)**

Gives the Major Investors the second right (typically after the Company's first right) to buy shares held by "key holders" before they are sold to third parties, subject to certain exceptions.

#### **Co-Sale Rights**

Allows Major Investors to sell a proportional amount of their stock, if a "key holder" sells a portion of their shares, so Investors are not left behind in a liquidity event.

#### **Registration Rights**

Procedure for Investors to require the Company to register its shares for sale in the public markets (for example, after an IPO).

#### **Pay-to-Play**

Requires existing Investors to participate pro rata in future rounds or lose certain privileges (like preferred status or board seats). Encourages continued Investor support in tougher markets.