

DEMYSTIFYING FUNDING

TERM SHEET OVERVIEW

WHAT IS A TERM SHEET?

First thing to note is that a term sheet is not a legal promise to invest. In other words, a signed term sheet doesn't guarantee money coming in the door. A term sheet is only a contract to the extent that:

- 1. It requires you to keep the negotiations confidential and
- 2. It may prevent the company from looking at other suitors for a period (the "no-shop" or "exclusivity" provision)

Secondly, most term sheets have legalese (usually near the end) that translates as: while this in every way looks like a contract to invest, it has no legal force whatsoever. All a term sheet sets out is the broad parameters of an investment; it's the "Five" Documents" that set out the actual terms of the investment. These are negotiated later, based on the term sheet.

- 1. The stock purchase agreement
- 2. Investor rights agreement
- 3. Certificate of incorporation
- 4. ROFR & co-sale agreement
- 5. Voting agreement

Source:

• Walk through the Seed Series template sourced from: Kauffman Foundation



Following is an example term sheet for a Seed Series:

	[Insert Company Name], INC. [Date]
Stock financing of [section entitled "Bind	ummary of the principal terms with respect to the proposed Series Seed Preferred], Inc., a Delawarel corporation (the "Company"). Except for the ing Terms," such summary of terms does not constitute a legally binding obligation. ding obligation will only be made pursuant to definitive agreements to be negotiated
Offering Terms	
Securities to Issue:	Shares of Series Seed Preferred Stock of the Company (the "Series Seed").
Aggregate Proceeds:	\$[] in aggregate.
Investors:	[Accredited investors approved by the Company] (the "Investors").
Price Per Share:	Price per share (the "Original Issue Price"), based on a pre-money valuation o \$[], including an available option pool of []%.
Liquidation Preference:	One times the Original Issue Price plus declared but unpaid dividends on each share of Series Seed, balance of proceeds paid to Common. A merger reorganization or similar transaction will be treated as a liquidation.
Conversion:	Convertible into one share of Common (subject to proportional adjustments fo stock splits, stock dividends and the like) at any time at the option of the holder.
Voting Rights:	Votes together with the Common Stock on all matters on an as-converted basis Approval of a majority of the Preferred Stock required to (i) adversely change rights of the Preferred Stock; (ii) change the authorized number of shares; (iii authorize a new series of Preferred Stock having rights senior to or on parity with the Preferred Stock; (iv) redeem or repurchase any shares (other than pursuant the Company's right of repurchase at original cost); (v) declare or pay and dividend; (vi) change the number of directors; or (vii) liquidate or dissolve including any change of control.
Documentation:	Documents will be based on Series Seed Preferred Stock documents published a www.seriesseed.com.
Financial Information:	Investors who have invested at least [\$] ("Major Investors") will receive standard information and inspection rights and management rights letter.
Participation Right:	Major Investors will have the right to participate on a pro rata basis in subsequent issuances of equity securities.
Board of Directors:	Two directors elected by holders of a majority of common stock, one elected by holders of a majority of Series Seed.
Expenses:	Company to reimburse counsel to investors for a flat fee of \$10,000.
Future Rights:	The Series Seed will be given the same rights as the next series of Preferred Stock (with appropriate adjustments for economic terms).
Founder Matters	Each founder shall have four years vesting beginning []. Full acceleration upon "Double Trigger." Each Founder shall have assigned all relevant IP to the Company prior to closing.
Binding Terms:	For a period of thirty days, the Company agrees not to solicit offers from other parties for any financing. Without the consent of Investors, the Company will not disclose these terms to anyone other than officers, directors, key service providers, and other potential Investors in this financing.
COMPANY: [, INC.] INVESTORS:
Name:	Name:
Title:	Title: