

Term sheet terms, in plain *English*

Every clause you will meet in a seed or Series A term sheet, what it means, and the version that is fair to founders. Keep it open on your first call with the lawyer.

TERM	WHAT IT MEANS	THE FOUNDER-FRIENDLY VERSION
Pre-money and post-money	Value before the new money, and value after it (pre-money plus the new money)	Agree the pre-money with the option pool shown separately
Option pool	Shares set aside for future employees, often stated as a % after the round	Size it to an 18 to 24 month hiring plan, and keep it outside the pre-money
Liquidation preference	Who gets paid first, and how much, if the company is sold or wound up	1x non-participating: their money back or their share of the price, whichever is higher
Participating preference	Investor takes their money back, then also their % of what is left ("double dipping")	Avoid it. Be very wary of any multiple above 1x
Anti-dilution	Adjusts the investor's conversion price if a later round is priced lower	Broad-based weighted average, with exceptions for ESOP grants. Never full ratchet
Pro-rata (pre-emptive right)	Right to invest in later rounds to keep the same %	Fine as standard. Avoid super pro-rata; set a minimum holding to qualify
Board composition	Who sits on the board now, and how that changes	Founder control for as long as reasonable; agree the next-round board in writing
Information rights	Financials, budget and audited accounts the investor receives	Realistic timelines, for example monthly accounts within 30 days
Reserved matters	Decisions that need the investor's consent (vetoes)	Big, rare decisions only. Not the budget, routine hiring or small contracts
Founder vesting	Founders' shares vest over time, often four years	Credit for time already served
Good and bad leaver	What a departing founder keeps, depending on why they leave	Define "bad leaver" narrowly: fraud or serious breach, not resigning
Acceleration	Unvested shares vest at once on a sale	Ask for it if a sale means you lose your role
Right of first refusal	Investors can buy shares a founder sells before an outsider	Normal
Tag-along	If founders sell, investors can sell on the same terms	Normal
Drag-along	A majority can force others to join a sale	Check the threshold and the minimum price
Founder lock-in	Founders can't sell shares for a period	Allow small secondary sales for personal needs
Exit rights	A route for investors to sell after some years	Don't promise an IPO or buyback by a fixed date
Exclusivity (no-shop)	You can't talk to other investors for a period, commonly 30 to 60 days. Usually binding	Sign only when ready to commit; keep it short

Five questions before you sign: What do I own after the round, pool included? What does each side get in a modest sale? What can't I do without the investor's consent? What happens if the next round is priced lower? Which clauses bind me today?