Gust Series Seed Term Sheet

This term sheet for financing early stage companies with investments from sophisticated angel investors was developed by Gust, the platform powering over 90% of the organized angel investment groups in the United States. The goal was to standardize on a single investment structure, eliminate confusion and significantly reduce the costs of negotiating, documenting and closing an early stage seed investment.

For those familiar with early stage angel transactions, this middle-of-the-road approach is founder-friendly and investor-rational, intended to strike a balance between the Series A Model Documents developed by the National Venture Capital Association that have traditionally been used by most American angel groups (which include a 17 page term sheet and 120 pages of supporting documentation covering many low-probability edge cases), and the one page Series Seed 2.0 Term Sheet developed in 2010 by Ted Wang of Fenwick & West as a contribution to the early stage community (which deferred most investor protections and deal specifics until future financing rounds.)

Transaction documents reflecting this term sheet, as well as a fully annotated and explanatory version, are available for download at http://gust.com/seriesseed

TERMS FOR PRIVATE PLACEMENT OF SEED SERIES PREFERRED STOCK OF
[*Insert Company Name*], INC.

[Date]

The following is a summary of the principal terms with respect to the proposed Seed Series Preferred Stock financing of \_\_\_\_\_\_\_\_\_\_\_, Inc., a [Delaware] corporation (the “***Company***”). Except for the sections entitled “Expenses”, “No Shop/Confidentiality” [and “Special Terms”], such summary of terms does not constitute a legally binding obligation. Any other legally binding obligation will only be made pursuant to definitive agreements to be negotiated and executed by the parties.

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| --- | --- |
| Offering Terms |  |
| Securities to Issue: | Shares of Seed Series Preferred Stock of the Company (the “***Series Seed***”). |
| Aggregate Proceeds: | Minimum of $\_\_\_\_\_\_\_ [and maximum of $\_\_\_\_\_\_\_\_\_ in aggregate]. |
| Lead Investors: | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ who will invest a minimum of $\_\_\_\_\_\_\_\_\_  |
| Price Per Share: | $ \_\_\_\_\_\_\_ (the “***Original Issue Price***”), based on a pre-money valuation of $\_\_\_\_, calculated based upon the capitalization of the Company as set forth in Exhibit A inclusive of an available post-closing option pool of 15% after receipt of maximum Aggregate Proceeds.  |
| Dividends: | Annual 5% accruing cumulative dividend payable when as and if declared, and upon (a) a Redemption or (b) a Liquidation (including a Deemed Liquidation Event) of the Company in which the holders of Series Seed receive less than 5 times the Original Issue Price per share (the “Cap”). For any other dividends or distributions, participation with Common Stock on an as-converted basis. |
| Liquidation Preference: | One times the Original Issue Price plus any accrued and unpaid dividends thereon (subject to the “Cap”) plus any other declared but unpaid dividends on each share of Series Seed, balance of proceeds paid to Common. A merger, consolidation, reorganization, sale or exclusive license of all or substantially all of the assets or similar transaction in one or a series of related transactions will be treated as a liquidation (a “Deemed Liquidation Event”). |
| Conversion: | Convertible into one share of Common (subject to proportional adjustments for stock splits, stock dividends and the like, and Broad-based Weighted Average anti-dilution protection) 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 Series Seed required to (i) adversely change rights of the Series Seed; (ii) change the authorized number of shares; (iii) authorize a new series of Preferred Stock having rights senior to or on parity with the Series Seed; (iv) create or authorize the creation of any debt security if the Company’s aggregate indebtedness would exceed 50% of the aggregate proceeds of the Series Seed; (v) redeem or repurchase any shares (other than pursuant to the Company’s right of repurchase at original cost); (vi) declare or pay any dividend; (vii) increase in the option pool reserve within two years following the closing; (viii) change the number of directors; or (ix) liquidate or dissolve, including any change of control or Deemed Liquidation Event. |
| Documentation: | Documents will be based on Seed Series Preferred Stock documents published at http:/gust.com/SeriesSeed which will be generated/drafted by Company counsel.  |
| Financial Information: | All Investors will receive annual financial statements and narrative update reports from management. Investors who have invested at least $25,000 (“***Major Investors***”) will receive quarterly financial and narrative update reports from management and inspection rights. Management rights letter will be provided to any Investor that requires such a letter. All communications with Investors shall be conducted through Company’s secure investor relations deal room on the Gust platform, which Company shall be responsible for maintaining with current, complete and accurate information. |
| Participation Right: | Major Investors will have the right to participate on a pro rata basis in subsequent issuances of equity securities.  |
| Redemption Right: | The Series Seed shall be redeemable from funds legally available for distribution at the option of the holders of a majority of the outstanding Series Seed commencing any time after the seventh anniversary of the Closing at a price equal to the Original Purchase Price plus all accrued but unpaid dividends and any other declared and unpaid dividends thereon. Redemption shall occur in three equal annual portions. |
| Board of Directors: | Two directors elected by holders of a majority of Common stock, one elected by holders of a majority of Series Seed. Series Seed Director approval required for (i) incurring indebtedness **[exceeding $25,000]** for borrowed money prior to the Company being cash flow positive, (ii) selling, transferring, licensing, pledging or encumbering technology or intellectual property, other than licenses granted in the ordinary course of business, (iii) entering into any material transaction with any founder, officer, director or key employee of the Company or any affiliate or family member of any of the foregoing, (iv) hiring, firing or materially changing the compensation of founders or executive officers, (v) changing the principal business of the Company or (vi) entering into any Deemed Liquidation Event that would result in the holders of Series Seed Series receiving less than 5 times their Original Purchase Price.  |
| Expenses: | Company to reimburse Investors a flat fee of $\_\_\_\_\_\_ for background check expenses, due diligence and review of transaction documentation by Investors’ counsel. Company shall be responsible for expenses related to Company’s Gust investor relations deal room. |
| Future Rights: | The Series Seed will be given the same contractual rights (such as registration rights, information rights, rights of first refusal and tag along rights) as the first series of Preferred Stock sold to investors on terms similar to, or consistent with, NVCA or other standard documents customary for venture capital investments by institutional investors.  |
| Founder Matters: | Each founder shall have four years vesting beginning as of the Closing, with 25% vesting on the first anniversary of the Closing and the remainder vesting monthly over the following 36 months. Full acceleration upon “Double Trigger.” Each Founder shall have assigned all relevant IP to the Company prior to closing and shall have entered into a non-disclosure, non-competition and non-solicitation agreement (to the fullest extent permitted by applicable law), with such non-competition and non-solicitation covenants to be applicable during the term of his or her employment by the Company and for one year after the termination thereof. Founders shall be subject to an agreement with the Company pursuant to which the Company shall have a right of first refusal with respect to any proposed transfer of capital stock of the Company at the price offered.  |
| No Shop / Confidentiality: | The Company and the founders agree that they will not, for a period of 60 days from the date these terms are accepted, take any action to solicit, initiate, encourage or assist the submission of any proposal, negotiation or offer from any person or entity other than the Investors relating to the sale or issuance, of any of the capital stock of the Company and shall notify the Investors promptly of any inquiries by any third parties in regards to the foregoing. The Company and the founders will not disclose the terms of this Term Sheet to any person other than officers, members of the Board of Directors and the Company’s accountants and attorneys and other potential Investors acceptable to the Investors, without the written consent of the Investors. |
| Special Terms: | [Deal specific comments/conditions inserted here. Otherwise “None”.] |

Company: [\_\_\_\_\_\_\_\_\_\_, INC.]

Name:

Title:

Date:

FOR THE INVESTORS:

Name:

Title:

Date:

*This sample term sheet was developed by Gust with the legal support of Lori Smith, Esq. of White and Williams, and extensive comments from the members of the New York Angels Term Sheet Committee including Larry Richenstein, Jeffrey Seltzer and Mark Schneider.*