



CEO Peer Groups, Coaching & Consulting

Venture Capital Glossary of Terms:

409A Valuation

A third-party valuation of a company's common stock. Generally used by startup companies to help determine the exercise price for company stock options.

ARPU

Average Revenue Per User

AOV

Average Order Value.

ARRG Ratio

Average Recurring Revenue (ARR) / Growth Rate.

Accelerator

A program that provides the mentorship and capital necessary to accelerate the growth and success of young startups. Typically, the program will provide some capital and in exchange will take an equity stake in the startup.

Accredited Investor

An individual or institution that meets certain wealth criteria (as defined regulators) and is therefore deemed to be sophisticated enough to participate in private, non-public investments. There are many ways to qualify, including if you are:- An individual that has had income in excess of \$200,000 per year in each of the prior two years, and reasonably expects the same for the current year- A spousal couple that has had income in excess of \$300,000 per year in each of the prior two years, and reasonably expects the same for the current year- An individual or spousal couple with over \$1,000,000 in net worth (excluding the value of their primary residence)- A charitable organization, corporation, partnership or trust with assets in excess of \$5,000,000. For most up to date definitions see www.irs.gov.

Allocation

The size of the round that is set aside for a specific investor (can be a fund or group of investors), usually communicated in a dollar amount.

Anchor investor

First investor in a fund; can be also referred to as the *lead* investor.

ARR

Annual revenue run rate; the revenue for the last month multiplied times 12 months as an estimate of the total revenue rate for the year.

Angel Investor

Wealthy individuals that invest in startups in their early stages of development or seed round of fundraising. Due to the inherent risk of loss of capital or significant dilution in subsequent fundraising, angel investors typically pursue investments with returns that they believe may have the potential to return multiples of the initial investment.

Anti-dilution Clause

Contractual clause that protects an investor from having their investment as a percentage of ownership significantly reduced in subsequent rounds of fundraising. Technically the provision increases the number of shares of Common Stock issuable upon conversion of a convertible security or upon exercise of a warrant or option upon the occurrence of specified events, usually the issuance of more shares for a low price.

Blended Preferences

When all classes of preferred stock have equal payment rights in the event of a liquidation

Bootstrapping

Business strategy by which a startup self-finances, eliminating the need for seed or angel investment. Typically achieved through lean operation and a product that generates revenue early in the company's life cycle.

Bridge Loan | Financing

A loan given to a startup by investors that serves to fund the company until the next round of financing. The bridge loan is usually converted into equity at the next equity financing of the company.

Burn Rate

Rate at which a company consumes cash to cover expenses. Typically expressed monthly or weekly. Usually applied to a company with no revenues, to give a metric of financial health and fundraising needs. A company with a low burn rate can theoretically operate longer without new injection of capital.

Capital Call

When a fund makes an investment and messages the LPs to put capital into the fund account to invest in the portfolio companies.

Cap Table

An official document that shows the capital structure of a company, including the specific ownership level by investor. Generally used to view the percentage ownership that each investor or employee owns of a certain company. For great tool check out <http://captable.io/>.

Carried Interest

The share of generated profits that an investment manager is entitled to keep as compensation. Typical venture capital fund incentive fees range from 20% to 30%, depending on the fund. This can also be referred to as an “Incentive Fee” or a “Performance Fee.”

Clawback

A clawback or clawback provision is a special contractual clause typically included in employment contracts by financial firms, by which money already paid must be paid back under certain conditions.

Cliff

Employee stock vesting agreements generally have a cliff, usually one year, before which no employee stock options vest.

Come Along Rights

Sometimes also called Tag Along Rights. The right of an investor to sell shares, if a founder or other key employee sells shares. This right is designed to protect the investors against being trapped in an investment after the founders have cashed out.

Conversion Rate or Ratio

Means the number of shares of Common Stock into which each share of Preferred Stock is convertible.

Common Stock

A type of equity security contrasted with preferred shares. Common stock is most frequently issued to founders, management, and employees. In a liquidation event, preferred shares generally take priority over common shares.

Control Rights

Rights of an investor or shareholder relating to control over the company's affairs. Control rights typically relate to voting or designation of board seats, voting (e.g., does a class of securities give the holder 10 votes per share?), and certain actions (e.g., incurring indebtedness) which require the consent of a majority of a certain class or series of security.

Convertible Debt

A loan that allows the lender to exchange the debt for common stock at a predetermined ratio instead of recollecting the principle as cash.

Convertible

The right of the investor to convert shares of Preferred Stock into shares of Common Stock at the Conversion Rate stated in the corporate charter. Conversion is usually automatic upon the occurrence of a Qualified IPO. Mandatory conversion is necessary because companies sell Common Stock in their IPOs and new investors are not likely to purchase Common Stock, if earlier investors retain Preferred Stock with superior rights.

Covenant

The obligation in a contract to do something. An obligation to refrain from doing something is called a Negative Covenant. For example, the obligation to obtain life insurance on key employees is a covenant and the obligation to not deviate from the budget approved by investors is a negative covenant.

Cumulative Dividend

If the dividend is not declared during the period stated in the corporate charter, the dividend accrues and is payable in a later period. If a dividend right isn't cumulative, the dividend would be lost forever if it's not declared during the period stated in the corporate charter. Accrued but unpaid dividends are sometimes convertible into shares of Common Stock.

Cutback Rights

Where shareholders exercise piggyback registration rights, but there are too many shares for the underwriters to sell in the public offering without adversely affecting the price, cutback rights determine whose shares are left out of the offering and whose shares are included in the offering.

Demand Registration Rights.

The right of investors to require the company to register the investors' shares for sale to the public even if the company was not otherwise planning to conduct a public offering. Usually, an investor or group of investors receives one or two Demand Registration Rights. Typically, the right isn't exercisable until after the company's initial public offering or after a stated time period.

Dilution

Generally speaking, as subsequent financing rounds occur, existing investors will own proportionally less of the company than they did previously since additional equity is generally issued as part of a new financing round. Dilution is not necessarily a bad thing _ since new stock can be issued at a higher price, you may own a smaller piece of a larger company, which means the value of your investment is actually higher than it was previously.

Down Round

A fundraising round in which the company is valued at a lower value per share than previous rounds.

Drag-Along Rights

The right of the owners of a specified percentage of the shares of the company to require other shareholders to sell their shares or to vote their shares to approve sale of the company. This prevents one group of shareholders from blocking sale of the company to someone who is only interested in purchasing 100% ownership of the company.

Due diligence

The process performed by prospective investors to assess the viability of an investment and confirm that the information provided by the company is accurate.

Exit Velocity

A term from baseball originally referring to the speed of the baseball as it comes off the bat, immediately after a batter makes contact. In venture it refers to the speed between investment and exit, immediately when the investment is made to the liquidity event that allows the investor to cash out. Example — capital invested for growth funds has a higher *exit velocity* than capital invested by accelerators in startups because the ventures are less mature and have a longer time to exit.

Earnings before interest and taxes (EBIT)

A measurement of the operating profit of the company. A possible valuation methodology is based on a comparison of private and public companies' value as a multiple of EBIT.

Elevator pitch

A concise presentation given from an entrepreneur to a potential investor about an investment opportunity. The presentation should be concise enough to be shared during an elevator ride.

Employee Stock Ownership Program (ESOP)

A pool of options that is reserved for future employee compensation packages.

Exercise Price (also known as Strike Price)

The amount that must be paid to execute your options. Generally, the exercise price is pegged to the “Fair Market Value” on the date of issuance, rather than the vesting date.

Exit Event or Liquidity Event

When an issuer engages in a transaction that allows investors to sell their shares, which generally happens through a tender offer (sale) or an IPO.

Fair Market Value

The value of a company based on what investors are willing to pay for it. For private companies or illiquid assets, “fair market value” is generally derived from comparable companies or assets that have recently had a transaction associated with them.

Fiduciary

Someone who owes special duties to another person and who has liability for not performing that duty.

First Refusal Rights

The right to purchase stock in future offerings by the company on the same terms as other investors. Usually the right is designed to enable investors to maintain their percentage ownership of the company by purchasing a pro rata share of all new stock sold by the company. Investors also often require company founders to grant first refusal rights on shares the founders own. Also sometimes called Preemptive Rights.

Friends and Family Round

Capital provided by the friends and family of founders of an early stage startup. This is typically its first outside capital. The startup is generally too early (often still at ideation) to raise capital from professional angel or seed investors but needs capital to get started.

Full Ratchet

The method of total protection from dilution is called a and ensures that should a fundraising round cause a previous investor's ownership percentage to decrease as a result of newly issued shares, they will be given the opportunity to maintain their ownership level.

In more technical terms, it is a type of Antidilution Protection that adjusts the Conversion Ratio so that each share of Preferred Stock will be convertible into a number of shares of Common Stock equal to the number of shares the investor would have received, if the investor had purchased the shares at the lowest subsequent price at which the company later sells its stock. The number of shares sold at the lower price doesn't matter. Only the lower price matters. For example, if the company sells Preferred Stock with a one-for-one Conversion Ratio for \$10 per share and later sells Common Stock for \$1 per share, each share of Preferred Stock would become convertible into ten shares of Common Stock, even if only one share is sold at the lower price.

Fully Diluted

Fully diluted means the total number of shares of Common Stock the company has issued, plus all shares of Common Stock issuable if all outstanding options, warrants, convertible preferred stock and convertible debt were to be exercised or converted. Fully diluted calculations are used to compare the percentage ownership of a company of different classes of securities by reducing each class to its Common Stock equivalent.

Fund of funds

A fund created to invest in private equity or venture capital funds. This entity is often referred to as a Limited Partner to the venture capital funds.

Grandfather Rights

A grandfather clause (or grandfather policy) is a provision in which an old rule continues to apply to some existing situations while a new rule will apply to all future cases. Those exempt from the new rule are said to have grandfather rights or acquired rights, or to have been grandfathered in.

GP

General Partner of a fund.

General Solicitation

The act of publicly soliciting investors, usually through advertising or any other non-controlled method of a public offering. If a company or issuer engages in public solicitation, it may eliminate certain safe harbors that were previously afforded to them under current securities regulation.

Gross Margin

The difference between revenue and cost of goods sold (COGS), divided by revenue.

Growth Equity

Growth Equity refers to private investments in late-stage companies which aim to finance revenue growth through market expansion. Such investments typically target minority positions in proven market segment leaders

K1

The [Schedule K-1](#) is an Internal Revenue Service (IRS) tax form issued annually for an investment in partnership interests. The purpose of the Schedule K-1 is to report each partner's share of the partnership's earnings, losses, deductions, and credits. It serves a similar purpose for tax reporting as one of the various Forms 1099, which report dividend or interest from securities or income from the sale of securities.

Document sent to LP investors by the fund that tells investors the percentage of the profits and losses of the fund that they are responsible for.

Key man clause

Clause in the LPA that enables the LP to break the agreement if one of the major GPs in the fund leave.

Key man risk

Referred to as the risk associated with depending on a single charismatic individual in a startup; key tactic is to build a strong capable team around the individual, usually the founder, to mitigate this risk.

Key man insurance

Insurance on the life of key employees which investors require the company to obtain.

Incubator

A program that provides the mentorship and capital necessary to accelerate the growth and success of young startups. Typically, the program will provide some capital and in exchange will take an equity stake in the startup.

Information Rights

The right of investors to have the company provide financial information annually, quarterly or monthly and other information as requested by investors. Under Delaware (and most state) law, a

stockholder has the right to inspect and make copies of the corporation's information, including their stock ledger, a list of stockholders, and its books and records. However, such a demand must be for a "proper purpose", which means a purpose reasonably related to the person's interest as a stockholder.

Initial Public Offering (IPO)

Process by which a formerly private company first issues stock to the public. New disclosures must be made, as the company must now adhere to SEC reporting requirements.

Inside Round

A round of financing entirely composed of existing investors.

Investment Syndicate

A group of investors that agree to participate in an investment round of funding for a company.

Investor's Rights Agreement

An agreement that is frequently required by early, or large, investors in a company. This agreement may include many provisions, such as "First Offer" (the right, but not the obligation, to participate in future fundraising rounds) and "Observer Rights" (the right to observe board meetings). This provision is relevant to shareholders because it may include a separate right of first refusal for investors.

Issuer

The entity / company that shares represent ownership in.

JOBS Act

Jumpstart Our Business Startups Act, passed in April 2012. Includes several provisions related to early stage companies, including new regulation regarding the maximum number of shareholders private companies are allowed and changes to the method in which companies can solicit private investors.

Letter of Intent (LOI)

A letter of intent (LOI) is similar to a memorandum of understanding (MOU) in that it is a common agreement between businesses (including startups) and potential customers to define commitment, interest, terms, and pricing in writing prior to delivering the good or service. This document is used to clarify understanding of both the customer and founder and often used to show investors. LOI and MOU agreements are used interchangeably and usually non-binding. At times, in working with customers on large projects with multiple phases where the customer and

business work together before payment and services are exchanged a MOU may be used before a LOI is used to define pricing and terms. Also see Memorandum of Understanding (MOU).

Limited Partner (LP)

Limited Partner, typically funds 99–100% of a fund, major investors

Lead investor

The investor who takes on most of the work in negotiating the investment terms, doing due diligence and monitoring the company after the closing. The lead investor usually invests more than other investors who participate in the round. The lead investor is often located near the company or specializes in the company's industry.

Liquidation

An event that could result in either investors or debt holders to receive cash from the company, either through acquisition or a sale of assets resulting from bankruptcy. In either case, preference clauses determine order of payout to claimants, typically valuing debt holders and preferred shareholders over common stockholders.

Liquidation Preference

The order in which investors, or debt holders, get paid in the event of company liquidation or bankruptcy. Commonly used by venture capitalists to ensure they see a return on their investment in different liquidation scenarios.

Liquidity

The ability of an asset to be freely transferred with minimal interference from the issuer. Public equity is deemed to be extremely liquid since there are many buyers and sellers, while stock in private companies is generally much less liquid since the buyers and sellers are more limited.

Lock-up Period

A period of time that must elapse before the holder of a specific security can transfer or sell the security.

LPA

Limited Partnership Agreement. Usually a 70 page document and agreement between the LP and the General Partnership.

Management Fee

The fees that a fund will charge its limited partners each year. Venture capital fund management fees typically range from 1–3% annually (usually 2%) and are generally charged based on committed capital during the investment period, and then invested capital after the investment period has finished.

Memorandum of Understanding (MOU)

The memorandum of understanding (MOU) is a common agreement between startups who are pre-product and potential customers to define commitment, interest, terms, and pricing in writing prior to delivering the good or service. LOI and MOU agreements are used interchangeably and usually non-binding. At times the MOU is used in partnerships to define working relationships where no financial exchange is yet made. At times, in working with customers on large projects with multiple phases where the customer and business work together before payment and services are exchanged a MOU may be used before a LOI is used to define pricing and terms. This document is usually also used to clarify understanding of both the customer and founder and often used to show investors. Also see Letter of Intent (LOI).

Milestone

An event that triggers another investment by the venture investors.

Non binding

Refers to the depth of the legal commitment of the document. Term sheets, Memorandums of Understanding (MOUs), Letters of Intent (LOIs) are non-binding documents of which the investor or startup can back out of the intended agreement. The etiquette in venture is to provide a term sheet and once the founder agrees to the term sheet move to execute the investment. It is not common for investors to back out of agreements once a term sheet is issued.

‘No shop’ clause

The clause in a term sheet that states to the founder they are not to share the term sheet with other investors in order to receive a competing offer. This is a standard clause. The etiquette in venture is to give founders about a week or less for a decision on a term sheet to limit the time founders have to unofficially ‘shop around’ the deal.

MFN

Most Favored Nation — the anchor investor that the largest investor can get all the benefits of all the side letters with the individual LP investors

Net Revenue

Net revenue is not the same as gross revenue. It accounts for certain price reductions, price adjustments and refunds.

Non-disclosure agreement (NDA)

An agreement issued by entrepreneurs to protect the privacy of their ideas when disclosing those ideas to third parties such as investors.

OA

GP Operation Agreement — governance document for the GP that is based on the term sheet and includes specifics related to the economics of the deal among the fund managers, management and operations, transfers and substitutions, termination and dissolution, and vesting.

Option Pool

A number of shares of Common Stock specified in the corporate charter that can be sold to employees, officers and directors at low prices without triggering the Price Antidilution Protection of the Preferred Stock. 15% of the fully diluted shares is fairly typical, although the size of the Option Pool usually depends on the number of shares estimated to be necessary to grant to employees to attract a team capable of achieving the goals of the company's business plan. This varies from one company to another. Option Pool shares are usually considered to be outstanding shares when calculating the company's valuation.

Over allotment Option

The right of investors to exercise the First Refusal Rights and Come Along Rights of other investors who don't exercise their own rights.

Participating Preferred Stock

A class of stock with a Liquidation Preference, whereby on liquidation, sale or merger of the company, the owner has the right to share on an equal basis with holders of Common Stock any money or other assets that remain for distribution after payment of the Liquidation Preference of the Preferred Stock. With Nonparticipating Preferred Stock, the holders of Preferred Stock must choose either to receive their Liquidation Preference or to receive the same distribution holders of Common Stock receive. A holder of Participating Preferred Stock doesn't have to choose and receives both.

Pay to Play

In venture capital, investors can raise the ante with co-investors by means of a "pay-to-play" provision, requiring that all investors in a portfolio company continue their pro rata financial commitment to the company, or else lose certain rights with respect to their original investment.

The rights can often be anti-dilution rights. In some cases, there is a provision of a portion of pro rata (e.g. 50%) or investors convert to common equity.

Piggyback Registration Rights

The right of investors to have shares included in a public offering the company plans to conduct for itself or another shareholder. Usually, this applies to an unlimited number of offerings until the registration rights terminate.

Post-Money Valuation

Calculated by adding the dollar amount invested in the transaction to the Pre-Money Valuation.

Preemptive Rights

Similar to rights of first refusal. The term *preemptive rights* refers to the right to purchase a company's new shares before they are offered to anyone else. In term sheets the preemptive rights provision may be titled "Right to Participate Pro Rata in Future Rounds". This is standard in term sheets.

Preferred Stock

A class of stock with a Liquidation Preference; that is, the right to receive distributions of money or assets prior to one or more other classes of stock if the company is sold, merged or liquidated. This protects investors by ensuring the investors get their money back (and sometimes a fixed return on the investment) before holders of Common Stock receive any money or assets.

Pre-Money Valuation

The theoretical value of the company before the investment agreed upon by the company and the investors. Pre- Money Valuation is calculated by multiplying the number of Fully Diluted shares of the company before the investment transaction by the purchase price per share in the investment transaction.

Price Antidilution Protection

Protects investors from overpaying for stock by adjusting the Conversion Ratio if the company later issues shares for a price less than the price the investors paid. Adjustment of the Conversion Ratio results in more shares of Common Stock becoming issuable upon conversion of each share of Preferred Stock than was agreed at the time of the investment. There are two basic types of Price Antidilution Protection; Full Ratchet and Weighted Average. Weighted Average can be either Broad Based or Narrow Based.

Protective Provisions

The right of an investor or group of investors to veto certain transactions by the company. This is usually achieved by prohibiting certain transactions, unless they are approved by a class vote of the Preferred Stock.

PEG ratio

Ratio of (price/earnings to growth ratio) is a valuation metric for determining the relative trade-off between the price of a stock, the earnings generated per share (EPS), and the company's expected growth.

Pari passu

Legal term that refers to equal treatment for two or more parties in an agreement meaning "on the same terms as".

Participating Preferred

For the term, the *Participating preferred* stock holders are entitled to receive a share of any remaining liquidation proceeds on an as-converted to common stock basis, after they have already gotten back their liquidation preference, whereas non-participating preferred stock holders either get (i) their liquidation preference back, or (ii) the amount they would have gotten had they converted to common stock. In other words, participating preferred gets the original capital back and the share of ownership. This term is sometimes referred to as investors *double dipping* as investors are getting the capital and the ownership verses just the percentage of the capital. [More here](#).

Party Round

A trend beginning several years ago in early financing rounds where, instead of raising large amounts of money from a few large investors, companies are raising small amounts of money from many small investors.

Piggyback rights

Rights of an investor to have their shares included in a registration of a company's shares in preparation for an IPO.

Pledge

A contract that requires one party to transfer the cash proceeds from a liquidation of equity to another party in exchange for cash received prior to the liquidation event.

Portfolio Company

A company that has received an investment from a venture capital fund becomes a portfolio company of that fund.

Post-money Valuation

The valuation of a company that includes the capital provided by the current round of financing. For example, if an individual invests \$3 million in a company with a \$10 million pre-money valuation, the post-money valuation is \$13 million.

PPM

Private Placement Memo — Usually 50–100 pages long that is the ‘business plan’ for starting a fund or for making an investment.

Preferred Stock

A type of equity security that has certain rights over common stockholders. These rights may include, but are not limited to, liquidation preferences, dividends, anti-dilution clauses, and managerial voting power.

Pre-money Valuation

Valuation of a company excluding the capital from the current round of financing.

Private Placement

The direct sale of a security to a limited number of qualified buyers, which may include accredited investors or institutional investors. Proper controls and structuring may exempt the placement from standard disclosure and registration policies mandated by the SEC.

Pro-rata rights

Pro-rata investment rights give an investor in a company the right to participate in a subsequent round of funding to maintain their level of percentage ownership in the company. This becomes a way for investors to continue to invest in companies that they want to put more into.

Qualified IPO

Means an initial public offering by the company of a size and price specified in the corporate charter. An IPO with \$20 million in gross proceeds to the company and a price per share three times the price the investor paid for its stock is fairly typical for a Qualified IPO, but this varies from one deal to another.

Roll up

A Rollup (also “Roll-up” or “Roll up”) is a process used by investors (commonly private equity firms) where multiple small companies in the same market are acquired and merged. The principal aim of a rollup is to reduce costs through economies of scale.

Ratchet

A provision that provides an investor with down-round protection (i.e., where the company raises a subsequent round of financing, which can include IPO, at a lower price) by providing for the issuance of additional shares in the subsequent round. In the IPO context, a ratchet provision provides that if the IPO price does not meet a certain level, say at least the price paid by the investor in the private round or some baked in rate of return above that price, the IPO conversion of those shares to common shares is adjusted such that an additional number of shares are issued to investors which would meet the predetermined level.

Recapitalization

The reorganization of a company’s capital structure.

Redemption Rights (Redeemable)

The right of the investor to require the company to repurchase the investor’s stock for a price specified in the corporate charter. Redemption rights usually are not exercisable until five years or longer after the investment. Redemption rights are rarely exercised, but they give investors leverage to ensure their investment will eventually become liquid through sale of the company if an IPO hasn’t occurred by a specified date.

Registration Rights

The right of investors in a public offering to require the company to include shares owned by the investors in a registration statement filed with the Securities and Exchange Commission under Section 5 of the Securities Act of 1933. There are three general types of registration rights (i) Demand; (ii) Piggybacks; and (iii) S-3.

Repurchase Option

The right of a company to buy back vested or issued shares.

Restricted Stock (also known as RSU)

Represents a class of stock that has some restrictions on the transfer or sale of the instrument. Generally, most non-public stock has some restrictions, though they may vary depending on the issuer and holder. See our post on RSUs for a deeper dive.

Return on Investment (ROI)

The proceeds from an investment during a specific time period, which are calculated as a percentage of the original investment.

Revenue

Revenue is the amount of money that a company actually receives during a specific period, including discounts and deductions for returned merchandise.

Revenue Multiple

TEV/TTM Revenue, usually used for valuing a company when it's not profitable yet.

Revenue Run Rate

The Revenue Run Rate (also *run rate* — one word) is the annualized revenue of a company if you were to extrapolate the current revenue over a year. It refers to the financial performance of a company based on using current financial information as a predictor of future performance. The run rate functions as an extrapolation of current financial performance and is based on the assumption that current conditions will continue. Run rates are useful for new business or business units within a company that have only had a short period of revenue generation opportunity. This figure allows managers, venture capitalists and investors to measure the annualized revenue.

Reverse dilution

When stock is returned to a company by departed employees whose stock has not yet vested.

Right of First Refusal (ROFR)

A common transfer restriction that gives companies / issuers the right to purchase the stock at the same price, before allowing a shareholder to transfer it to a third party. Large investors in companies are also often granted a ROFR prior to transfers or sales.

Road Show

Presentations usually made in several cities to potential investors and other potentially interested parties. A company will often use a road show to create interest from investors before its IPO.

Rule 506(b)

A legal “safe harbor” that allows issuers of non-public stock to sell interests to accredited investors without having to register with the SEC. Under this provision, issuers cannot engage in “general solicitation”, such as advertising.

Run Rate

The run rate is how the financial performance (usually revenue) of a company would look like if the current results are extrapolated out over a certain period of time.

SAFE

A SAFE or safe stands for a “simple agreement for future equity”. This document was authored by Y Combinator lawyer Carolynn Levy and open sourced. It was created and published as a simple replacement for convertible notes. In practice a SAFE enables a startup company and an investor to accomplish the same general goal as a convertible note, though a SAFE is not a debt instrument.

A SAFE is an agreement that can be used between a company and an investor. The investors invests money in the company using a SAFE. In exchange for the money, with a SAFE, the investor receives the right to purchase stock in a future equity round (when one occurs) subject to certain parameters set in advance in the SAFE.

Super Pro Rata

Super pro-rata right the investor (let’s say in your A round) will ask for more than their pro-rata right.

Side Letter

Agreement between the fund and the individual investor.

Seed Round

The earliest round of fundraising, typically backed by a company’s founders, their friends, family, or Angel investors. The company is generally not generating revenues and is in the process of developing their product.

Senior Liquidation Preference

An entitlement given to a certain class of shareholders that gives them a higher liquidation preference over other shareholders. Also known as Stacked Preference.

Separation Agreement

Not always one document, the “Separation Agreement” refers to the entire package of rights and considerations when an employee amicably leaves a company. In addition to severance pay, separation agreements often include provisions about non-disparagement, non-disclosure, and vesting of equity.

Shareholder Agreement

A contract that sets out how the company will be operated and the shareholders' obligation and rights. It often provides protection to minority shareholders.

Shareholder Limit

Established by Section 12(g) of the Exchange Act, requires that private companies register with the SEC, depending on certain criteria, including the type of shareholders and the total number of shareholders.

Shareholder of Record

The name of a shareholder as it exists on the registrar of the issuer.

Shares Outstanding

Refers to a company's stock currently held by all of its shareholders, including shares held by institutional investors and restricted shares owned by a company's executives. This number is used to calculate key metrics such as a company's market capitalization, earnings per share, and cash flow per share.

Stacked Preference

When different classes of preferred stock have senior rights to payment over other classes of preferred stock. Also known as *Senior Liquidation Preference*.

Stock Option

A right to purchase or sell a share of stock at a specific price within a specified period of time. Stock options are often used as long term incentive compensation for management and employees at high-growth companies.

Stock Plan or Employee Incentive Plan

The Stock Plan is an assimilation of all the rights and economic interests that are attached to company stock, including the company's bylaws, grant documents, shareholder agreements, etc.

S-3 Registration Rights

The right of investors to require the company to file a short form registration statement on Form S-3. S-3 Registration Rights are like Demand Registration Rights, but usually one or two registrations each year are permitted, because the short Form S-3 is less burdensome to the company.

Syndicate

The group of venture investors who participate in the investment round.

TEV

Total Enterprise Value.

TTM

Trailing 12 month revenue; sum of revenue.

Tag-Along Right

The right of a minority investor to receive the same benefits as a majority investor. This often applies to a sale of securities by investors and is also known as co-sale right.

Term Sheet

A document that includes the basic terms of a company's fundraising round (or any investment). Once signed, it indicates that the investor and the company intend to move forward to complete the transaction and stipulates the major economic or corporate governance terms related to the investment.

Transfer Restrictions

Contractually defined limitations on an individual's ability to sell or transfer their shares in the company.

Unicorn

Team referring to a startup valued at \$1B or more.

Visitation Rights

Also called Observer Rights. The right of investors to have a nonvoting representative attend meeting of the Board of Directors of the company and committees of the Board.

Vesting

Generally, when something that is promised is delivered and ownership is officially granted to the recipient. For employees, shares generally vest according to a predetermined schedule. Vesting effectively means that employees only receive their equity compensation after a period of employment to ensure alignment of interest between the company and the employee. The current market standard for vesting schedules is 4 years with a one-year "cliff". Typically, this means

that 25% of the grant will vest after one year, and the balance will vest in equal monthly installments over the following 36 months.

Warrant

The right to purchase stock at a later date at a fixed price. Similar to stock options, but usually given to investors, not employees.

Warrant Coverage. Warrants issued to reward bridge loan lenders, guarantors or other lenders for incurring the risk of lending. The number of shares issuable upon exercise of the warrants is based on a percentage of the debt.

Washout Round

A round of financing where previous investors, the founders, and management suffer significant dilution. The new investor in a washout round will typically gain majority ownership and control of the company.

Weighted Average

A form of Antidilution Protection that adjusts the Conversion Ratio according to a formula that takes into account both the lower price and the number of shares issued at the lower price. This is more favorable to the company than a Full Ratchet. Narrow Based Weighted Average uses only the number of outstanding shares of Preferred Stock in the formula used to adjust the conversion price. This is more favorable to the investor than Broad Based Weighted Average, which includes all fully diluted shares in its formula.

Write-Off

A decrease in the reported value of an asset or company.