PAPERTRACK — FREE RESOURCE

Early-Stage Term Sheet Template

An annotated framework to help you understand the key terms you'll encounter in seed / Series A negotiations and build your own template.

> A term sheet is a non-binding statement of intent (except typically for confidentiality and exclusivity clauses). Final terms are set in the definitive investment agreement. This template is for informational purposes only and is not legal advice.

1. Investment Amount & Valuation

Term	Description
Investment Amount	**[AMOUNT]** — the total capital the investor is putting into the company
Pre-money Valuation	Company value before the investment
Post-money Valuation	Pre-money + Investment Amount
Price per Share	Post-money valuation ÷ total shares outstanding

2. Type of Stock

Preferred Stock: Investors typically receive preferred stock, which carries additional protections such as liquidation preference, voting rights, and information rights. Founders and employees typically hold ordinary/common stock.

3. Liquidation Preference

If the company is sold or liquidated, the investor has the right to be paid back their investment (typically 1x) before other shareholders. This can be participating or non-participating — non-participating is generally more founder-friendly.

4. Anti-Dilution Protection

Protects the investor's ownership percentage if the company later raises at a lower valuation (a "down round"). The "weighted average" method is more balanced for founders than "full ratchet."

5. Vesting

The gradual earning of founder and employee shares over time. Standard structure:

- **4-year vesting** with a **1-year cliff** (no shares vest until the first year is complete)
- Monthly or quarterly vesting after the cliff

6. Board Composition

The post-investment board structure — how many founder seats, investor seats, and independent seats (e.g. 2 founders, 1 investor, 1 independent).

7. Pro-Rata Rights

The investor's right to invest further in future rounds to maintain their ownership percentage.

8. Information Rights

The company's obligation to provide the investor with regular (monthly/quarterly) financial reports and key updates.

9. No-Shop / Exclusivity Clause

A commitment by the company not to negotiate with other investors for a set period (typically 30-60 days). This is one of the few clauses in a term sheet that is actually binding.

10. Confidentiality

An obligation not to share the term sheet's contents with third parties — also typically binding.

11. Expiration

How long the term sheet remains valid (typically 2-4 weeks), within which both parties aim to sign definitive agreements.

Checklist: Questions to Ask When Reviewing a Term Sheet

- [ ] What is the liquidation preference multiple, and is it participating or non-participating?
- [ ] Which anti-dilution method applies — full ratchet or weighted average?
- [ ] Do founders retain a majority on the board?
- [ ] Does vesting also apply to existing founder shares (reverse vesting)?
- [ ] Is the no-shop period reasonable (30-60 days)?

To securely share the term sheet and follow-up legal documents with investors and lawyers: **papertrack.io**