

Glossary for DTU 2012 Term Sheet Battle – Long Form

Equity Dilution - A reduction in the percentage ownership of a given shareholder in a company caused by the issuance of new shares, or if convertible securities are converted or warrants or stock options are exercised. Do not confuse with net tangible book value dilution.

Drag along - A shareholders' right, obligating other shareholders to sell their shares into an offer the first shareholders' wish to execute. This right protects the dragging shareholders by forcing the other shareholders to exit should the dragging shareholders exit.

Lock-up period - A predetermined amount of time that some shareholders have agreed to waive their right to sell their shares.

Option pool - An option pool is an amount of a startup's shares reserved for future issuances to employees, directors, advisors, and consultants.

Preferences - A right for some shareholders to receive proceeds from the company before other shareholders.

Pre-money valuation - The valuation of a company prior to a round of investment, i.e. before cash is invested in the company.

Ratchet/"anti-dilution adjustment" - Ratchets reduce the price at which venture capitalists can convert their debt into preferred stock, which effectively increases their percentage of equity.

Redemption - A right to force the company to provide a liquidity event by having the company repurchase/redeem outstanding shares.

Right of first refusal - A right of first refusal gives the holder the right to match any other offer before a sale to a third party is carried out.

Tag along - This right assures that if some shareholders sell their shares, other shareholders have the right to sell their shares at the same terms and conditions as would apply to the selling shareholder.

Term Sheet - A non-binding agreement setting forth the basic terms and conditions under which an investment will be made. A term sheet serves as a template to develop more detailed legal documents. Once the parties involved reach an agreement on the details laid out in the term sheet, a binding agreement or contract that conforms to the term sheet details is then drawn up.

Tranches - Funds flowing from investors to a company that represent a partial round (a French word meaning a slice or cutting).

Vesting - Vesting is to give an immediately secured right of present or future enjoyment. One has a vested right to an asset that cannot be taken away by any third party, even though one may not yet possess the asset.

Glossary for DTU 2012 Term Sheet Battle – Quick and Dirty

Dilution – the reduction in percentage ownership by existing shareholders when new shares/options/warrants are granted or issued.

Drag along – right by one or more shareholders to force other shareholders to do something

Lock-up period – a holding period before shares can be transferred or sold

Option pool – equity compensation available for issuance or grant

Preferences – when one class of shareholders has right to get money out of the company before another class of shareholders

Pre-money valuation – deemed value of the company prior to a round of investment

Ratchet/"anti-dilution adjustment" – price protection enabling investors to get more if the company sells new shares at a price less originally paid by such investors

Redemption – investor right to get liquidity by selling shares back to the company

Right of first refusal – gives the holder the right to take/match a deal, before such deal can be executed with a third party

Tag along – right to "piggyback" on a deal on same terms as other parties

Term Sheet – a non-binding summary of key business points – drafting instructions

Tranche – a staged financing, usually conditioned on achievement of milestones

Vested – a right that has been earned, usually based on time served or milestone achieved, such as an option to acquire shares at a predetermined price