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**Founder Friendly Standard Term Sheet for [Company Name]**

**July 14, 2020**

**THE OFFERING**

|  |  |
| --- | --- |
| **Company:** | [Company Name], a Delaware corporation (the “Company”) |
| **Investor:** | [Investor Signatory Name], an individual (the “Investor”) |
| **Securities:** | Series A Preferred Stock (the “Preferred”), convertible into Class B Common Stock (1 vote per share) |
| **Valuation:** | $[pre-money Valuation] pre-money |
| **Amount of the offering:** | $[Amount of Offering] |
| **Number of shares:** | [Number of Shares] shares |
| **Price per share:** | $[Original Price per Share] (the “Original Purchase Price”) |

**FOUNDERS**

|  |  |
| --- | --- |
| **Founders:** |  |
| **Founder Stock:** | Class A Common Stock (24 votes per share) |
| **Founder Stock Terms:** | Founders’ stock shall be subject to a repurchase right reflecting a 4-year vesting schedule consistent with the vesting terms in the Employee Options section below and shall convert to Class B Common Stock upon any transfer of ownership or sale (including any estate planning transfer). |

**OFFERING INVESTMENT TERMS**

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| --- | --- |
| **Liquidation preference:** | In the event of a liquidation, dissolution or winding up of the Company, the Preferred will have the right to receive the Original Purchase Price plus any declared and unpaid dividends prior to any distribution to the common stock. The remaining assets will be distributed pro rata to the holders of common stock. A sale of all or substantially all of the Company’s assets, or of its intellectual property, or a merger or consolidation of the Company with any other company will be treated as a liquidation of the Company. |
| **Conversion:** | The Preferred may be converted at any time, at the option of the holder, into shares of Class B Common Stock. Mandatory conversion shall occur upon the closing of a firmly underwritten public offering of the Company’s common stock or the consent of holders of a majority of the shares of the Preferred that are then outstanding. |
| **Dividends:** | 8% of par value, if and when declared by the Board of Directors, prior and in preference to payment of dividends on any other stock. |
| **General voting rights:** | Each share of the Preferred will have the right to a number of votes equal to the number of shares of common stock issuable upon conversion of each such share of the Preferred. |
| **Protective provisions:** | So long as any of the Preferred is outstanding, consent of the holders of at least 50% of the Preferred will be required for any action that: (i) alters any provision of the certificate of incorporation if it would adversely alter the rights, preferences, privileges or powers of the Preferred; (ii) changes the authorized number of shares of the Preferred; or (iii) authorizes or creates any security that ranks senior to or on par with the Preferred. |

**INVESTOR RIGHTS & CORPORATE GOVERNANCE**

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| --- | --- |
| **Participation rights:** | Major Investors (20% holders) may purchase a pro rata share of any new securities offering by the Company, subject to reasonable exceptions. The pro rata share is calculated as the ratio of (x) the number of shares of Preferred held by such Major Investor (on an as-converted basis) to (y) the Company’s fully-diluted capitalization (on an as-converted and as-exercised basis). This right terminates upon the Company’s initial public offering or an acquisition of the Company. Such rights shall be assignable to affiliated entities, partners, members, successors and commonly controlled funds. |
| **Registration rights:** | Piggyback and SEC Form S-3 registration rights (or other rights consistent with local securities regulations). |
| **Information rights:** | Investors shall have the right to receive annual financial statements, the Company’s annual budget, as well as quarterly and monthly financial statements. |
| **Tax and Audit:** | Company agrees to hire a certified public accountant to prepare and file its tax returns. Beginning three years from the date of this investment, Company agrees to hire a certified public accountant to audit its financials once per year. |
| **Board composition:** | Each term of the Board of Directors (the “Board”) shall be one year. For one year beginning on the date of investment, the Board shall be comprised only of the Company’s Founders or managers selected by the Founders. For two years following the date of investment, the Board shall not delegate supervisory or decision-making authority to any Board committee or other body. |

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| **Transfer restriction:** | 180-day lock-up period following a public offering. Bylaws and option plan documents shall include limitations on certain transfers, including on secondary markets, to competitors, or that may trigger public reporting obligations. |
| **Employee options:** | All employee options shall be convertible into Class B common stock, and vest as follows: 25% after one year, with remaining vesting monthly over next 36 months. Employees, including Founders, are advised to consult with a tax advisor concerning the possible tax consequences of any equity issuances, including the impact of an IRC Section 83(b) election for US taxpayers. |
| **Employee evaluations:** | Founders (or as necessary, divisional or segment managers) shall conduct performance reviews for all employees (or each other as applicable) including themselves on a quarterly basis for at least 4 years, or until the Board resolves otherwise, whichever is later. |
| **ROFR/Co-sale agreement:** | All shareholders grant first refusal and co-sale rights to the Company and the investors (as applicable). |
| **Purchase agreement:** | The investment shall be made pursuant to a Stock Purchase Agreement with appropriate representations and warranties, covenants and conditions of closing. |
| **Intention of the Parties** | Company and Investor agree that the enclosed exhibit, “The Founder Friendly Standard” captures the intent of the parties in creating this Agreement. In the event of any discrepancy between this Agreement and the Founder Friendly Standard, the Founder Friendly Standard will prevail. The enclosed exhibit is an exact copy of version 1 retrieved from <https://eisaiah.blog/founder-friendly-standard/>. |

[***Signature page follows***]

**INVESTOR:**

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\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

[Investor Signatory Name]

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Date: ‌

**COMPANY:**

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\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

[Company Signatory Name]

[Company Signatory Title]

Date: ‌