

Glossary for Term Sheet Battle™

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.

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 - Return of shares to a company in return for a predefined share of its equity.

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.