Full-Year 2019

WILSON SONSINI

THE ENTREPRENEURS REPORT
Private Company Financing Trends

A Founder's Guide to Y Combinator's Post-Money Safes

By Andrew Sparks and Dave Brekke

In late 2018, Y Combinator released new forms of Simple Agreements for Future Equity (Safes) that were significantly different from the initial forms created in 2013. With the release of the updated Safes, many founders have been left wondering exactly what changed and how Safes work overall. In response, we created a simple, high-level guide for founders to quickly get up to speed on the forms, including the more recent changes and other important provisions that are critical to understand.

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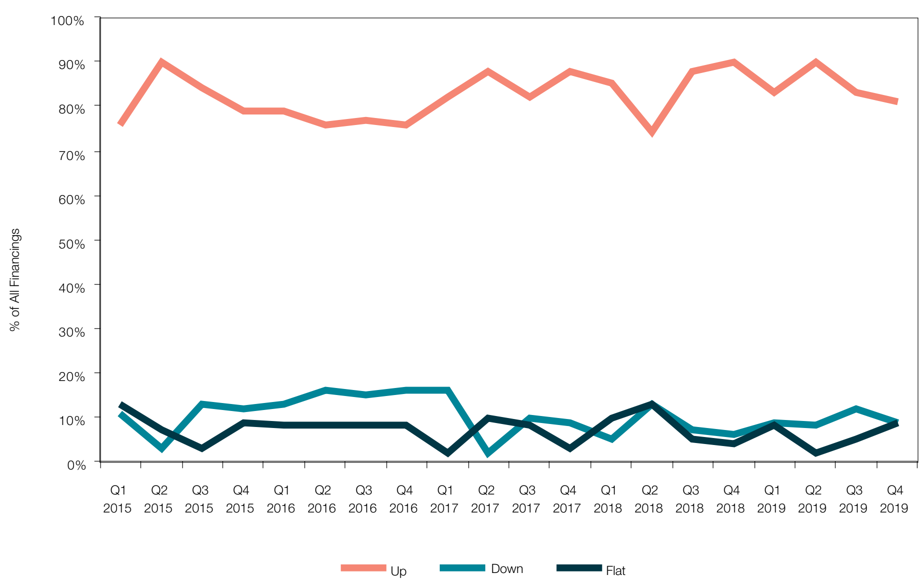
From the Wilson Sonsini Database: Financing Trends for Full-Year 2019

Up and Down Rounds by Quarter



The strong venture financings market continued through the last quarter of 2019 and cemented 2019's legacy as an exceptional year for median pre-money valuations and amounts raised for equity rounds. The year exceeded all prior full-year metrics across nearly every deal round category, and most dramatically for late stage pre-money valuations. Series C and later pre-money valuations reached an all-time high of $200.0 million in full-year 2019—twice the median pre-money valuation reported in full-year 2016 and well above the full-year 2018 median of $182.5 million. These strong pre-money valuations were accompanied by high median amounts raised across all equity rounds of financing in full-year 2019, representing the highest medians since Wilson Sonsini started tracking this data in 2010. High pre-money valuations also boosted the percentage of up rounds to 85% of all Series B and later financings for full-year 2019.

Up and Down Rounds

Up rounds represented 81% of all Series B and later financings in Q4 2019, the

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lowest quarterly percentage in 2019. However, up rounds represented 85% of all financings in full-year 2019, nearly matching the 84% share of up rounds seen in full-year 2018. Down rounds in Q4 2019 decreased slightly to 9% of all deals from 12% in Q3 2019, while flat rounds increased slightly, from 5% to 9%. For full-year 2019, down and flat rounds represented 10% and 6% of financings, respectively.

Valuations

Median pre-money valuations for Series Seed financings remained consistent at $9.0 million in Q4 2019, compared to $9.1 million in Q3, while Series A valuations increased from $22.5 million in Q3 to $29.0 million in Q4. The full-year 2019 median pre-money valuations for early-stage rounds remained strong, with pre-money median valuations for Seed and Series A deals landing at $9.0 million and $24.0 million, respectively—the highest full-year median valuations of the last five years.

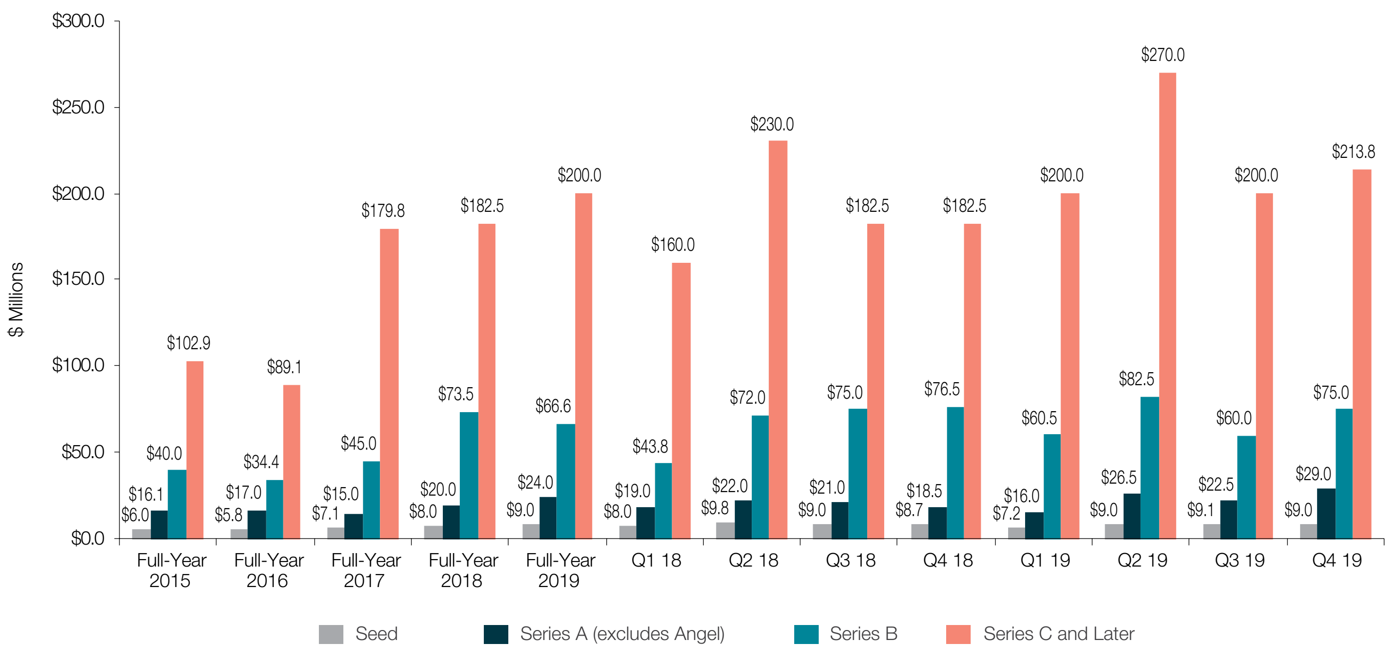
The median pre-money valuation for Series B rounds climbed to $75.0 million in Q4 2019, up from $60.0 million in Q3. The full-year 2019 median pre-money valuation for Series B rounds landed at $66.6 million—lower than full-year 2018 ($73.5 million) but well above the five-year median of $47.0 million.

Strong pre-money valuations throughout 2019 and an above-average number of unicorn deals led to a banner year for late-stage financings. The Q4 2019 median pre-money valuation for Series C and later financings was $213.8 million, up from $200.0 million in Q3. The full-year 2019 median pre-money valuation for Series C and later financings came in above the 2018 high of $182.5 million, at $200.0 million.

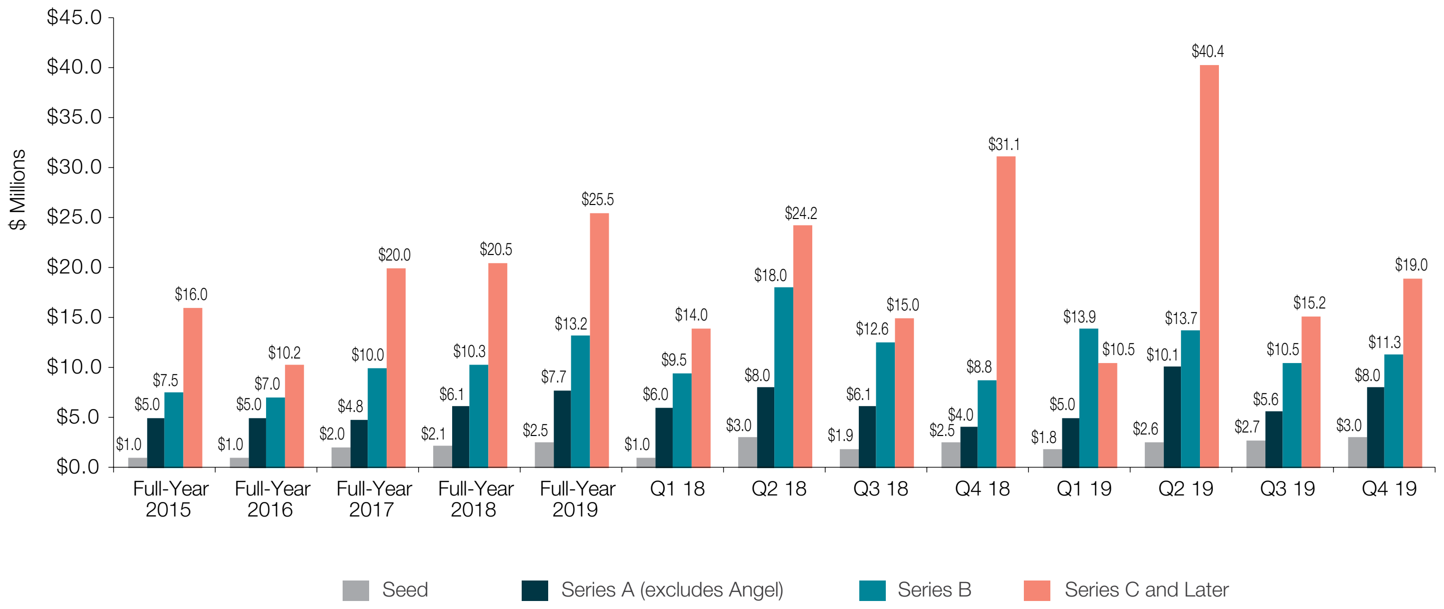
Amounts Raised

Full-year 2019 median amounts raised across all rounds of funding were the highest since Wilson Sonsini started tracking this data in 2010. Median amounts raised for Series Seed financings in Q4 2019 increased from $2.7 million in Q3 2019 to $3.0 million in Q4. Median amounts raised for Series A financings climbed from $5.6 million in Q3 2019 to $8.0 million in Q4, securing a full-year 2019 median amount raised of $7.7 million, exceeding the median amounts raised in each of the prior four years.

Median Pre-Money Valuation



Median Amount Raised – Equity Financings



The median amount raised in Q4 2019 Series B financings grew from $10.5 million in Q3 to $11.3 million in Q4. The full-year 2019 Series B median amount raised was $13.2 million—the highest Series B full-year median valuation of the last five years.

The median amount raised in Series C and later transactions increased to $19.0 million in Q4 2019, compared to $15.2 million in Q3. The full-year 2019 median for Series C and later transactions surpassed the previous year, landing at $25.5 million, compared to $20.5 million in full-year 2018.

Deal Terms—Preferred

The use of senior liquidation preferences increased moderately in Series B and later rounds, from 31% of all such rounds in 2018 to 35% in full-year 2019. Senior liquidation preferences in up rounds grew from 28% in 2018 to 30% in 2019, and their use in down rounds spiked, from 36% in 2018 to 63% in 2019. *Pari passu* liquidation preferences in up rounds fell slightly from 72% in 2018 to 68% in 2019, and also decreased in down rounds, from 64% in 2018 to 37% in 2019.

The percentage of financings having a liquidation preference with participation increased narrowly across all rounds of financings, from 12% in 2018 to 15% in 2019. The proportion of down rounds with participating liquidation preferences grew notably, from 21% in 2018 to 37% in 2019.

The use of broad-based weighted average anti-dilution protection remained steady at 94% of all deals in 2019. There were no narrow-based weighted average anti-dilution protection financings in 2019, compared to 2% of deals in 2018. The percent of deals having redemption rights increased from 9% in 2018 to 14% in 2019.

Data on deal terms such as liquidation preferences, dividends, and others are set forth in the table below. To see how the terms tracked in the table can be used in the context of a financing, we encourage you to draft a term sheet using our automated Term Sheet Generator, which is available in the Emerging Companies section of the firm's website at www.wsgr.com.

Private Company Financing Deal Terms (WSGR Deals)[1]

	2015 All Rounds[2]	2016 All Rounds[2]	2017 All Rounds[2]	2018 All Rounds[2]	2019 All Rounds[2]	2015 Up Rounds[3]	2016 Up Rounds[3]	2017 Up Rounds[3]	2018 Up Rounds[3]	2019 Up Rounds[3]	2015 Down Rounds[3]	2016 Down Rounds[3]	2017 Down Rounds[3]	2018 Down Rounds[3]	2019 Down Rounds[3]
Liquidation Preferences - Series B and Later															
Senior	33%	38%	35%	31%	35%	31%	36%	31%	28%	30%	35%	41%	63%	36%	63%
Pari Passu with Other Preferred	62%	57%	62%	69%	63%	66%	62%	66%	72%	68%	53%	45%	38%	64%	37%
Junior	1%	1%	0%	0%	1%	1%	0%	0%	0%	1%	0%	5%	0%	0%	0%
Complex	3%	4%	3%	0%	2%	1%	2%	4%	0%	2%	12%	9%	0%	0%	0%
Participating vs. Non-participating															
Participating - Cap	8%	9%	6%	5%	5%	11%	10%	7%	5%	5%	12%	22%	31%	7%	5%
Participating - No Cap	11%	11%	10%	7%	10%	12%	13%	11%	7%	12%	35%	4%	19%	14%	32%
Non-participating	81%	81%	84%	88%	85%	77%	77%	82%	88%	83%	53%	74%	50%	79%	63%
Dividends															
Yes, Cumulative	3%	6%	7%	7%	5%	3%	7%	9%	9%	6%	24%	22%	13%	23%	11%
Yes, Non-cumulative	82%	73%	78%	61%	56%	86%	78%	78%	62%	67%	76%	70%	81%	69%	79%
None	15%	21%	16%	32%	39%	11%	15%	13%	29%	28%	0%	9%	6%	8%	11%
Anti-dilution Provisions															
Weighted Average - Broad	80%	92%	94%	94%	94%	86%	92%	96%	94%	99%	75%	91%	100%	100%	89%
Weighted Average - Narrow	13%	1%	2%	2%	0%	12%	1%	1%	3%	0%	19%	0%	0%	0%	5%
Ratchet	1%	1%	0%	0%	0%	1%	2%	0%	0%	0%	0%	0%	0%	0%	5%
Other (Including Blend)	1%	3%	1%	1%	1%	1%	3%	1%	1%	0%	0%	9%	0%	0%	0%
None	5%	3%	3%	3%	4%	1%	2%	1%	2%	1%	6%	0%	0%	0%	0%
Pay to Play - Series B and Later															
Applicable to This Financing	5%	5%	2%	4%	2%	3%	3%	2%	1%	1%	18%	9%	6%	0%	16%
Applicable to Future Financings	1%	1%	0%	1%	1%	0%	1%	0%	1%	1%	12%	0%	0%	0%	0%
None	94%	94%	98%	95%	97%	97%	96%	98%	97%	99%	71%	91%	94%	100%	84%
Redemption															
Investor Option	13%	11%	12%	8%	11%	19%	20%	19%	10%	14%	12%	9%	20%	14%	21%
Mandatory	2%	2%	7%	1%	3%	3%	3%	9%	3%	3%	0%	0%	0%	0%	5%
None	85%	87%	81%	91%	86%	78%	77%	72%	87%	82%	88%	91%	80%	86%	74%

[1]We based this analysis on deals having an initial closing in the period to ensure that the data clearly reflects current trends. Please note that the numbers do not always add up to 100% due to rounding.
[2]Includes flat rounds and, unless otherwise indicated, Series A rounds.
[3]Note that the All Rounds metrics include flat rounds and, in certain cases, Series A financings as well. Consequently, metrics in the All Rounds column may be outside the ranges bounded by the Up Rounds and Down Rounds columns, which will not include such transactions.

Bridge Loans

The median amount raised in pre-Series A bridge loans decreased in Q4 2019, from $0.67 million in Q3 to $0.60 million in Q4, with the full-year median amount raised landing at $0.50 million. The median amount raised for Q4 2019 post-Series A bridge loans dropped from a high of $4.84 million in Q3 to $2.30 million in Q4. However, at $2.05 million, the full-year 2019 median amount raised for post-Series A bridge loans marked the highest median of the past five years.

Deal Terms—Bridge Loans

Bridge loan interest rates fell in 2019, as evidenced by the increased share of bridge loans with rates below 8%.

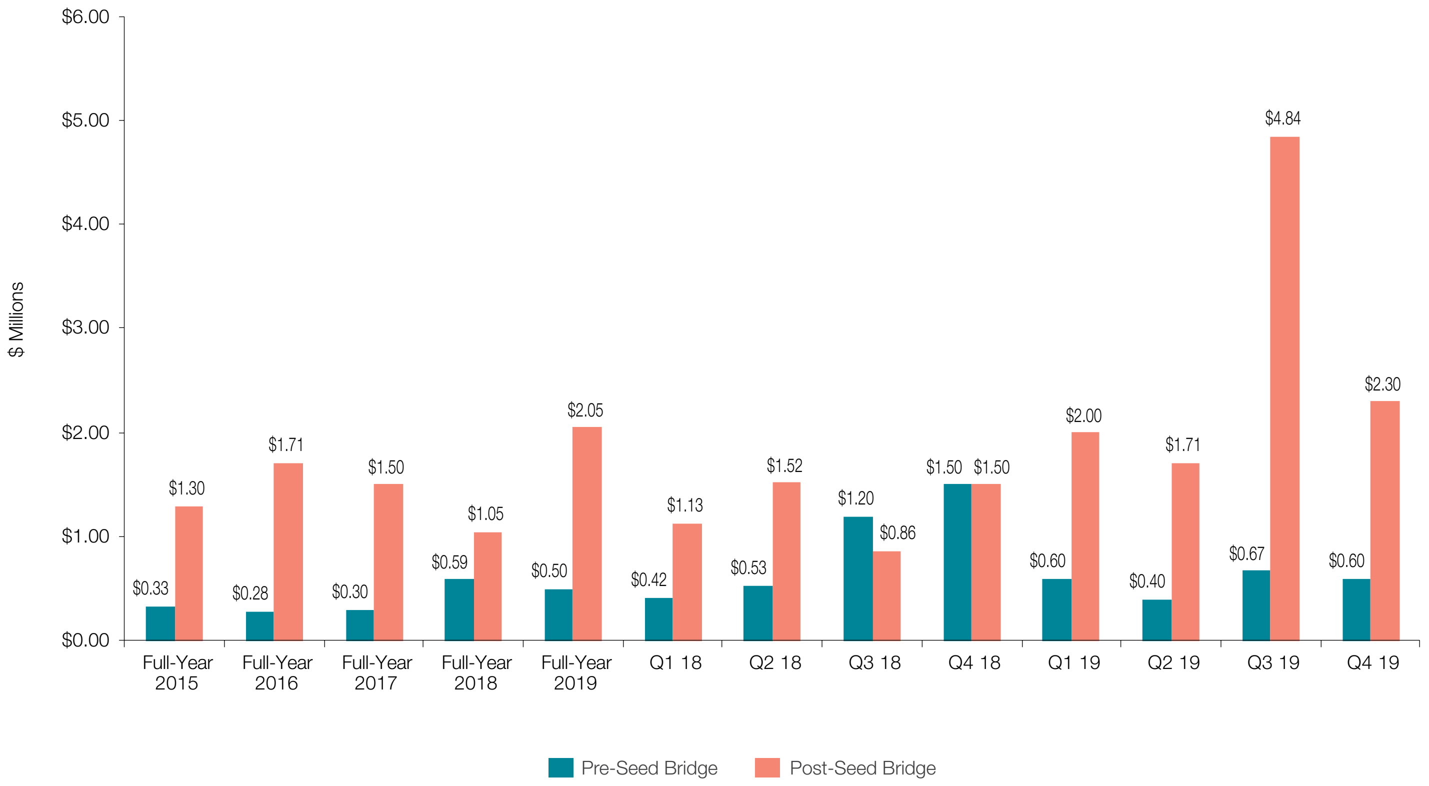
Among pre-Seed bridge loans, 87% had interest rates below 8%, compared to 67% in 2018, while the number of pre-Seed bridge loans with interest rates at 8% or higher decreased to 13% in 2019, the lowest share in five years.

Interest rates also decreased for post-Series A bridge loans in 2019, with 70% of post-Seed bridge loans having an interest rate below 8%, compared to 65% in 2018. In addition, the percentage of loans with maturity periods of less than 12 months increased for post-Seed financings, from 21% in 2018 to 26% in 2019, reflecting a trend toward shorter term, lower-interest loans for more mature companies.

Fewer post-Seed loans included warrants in 2019, slipping from 18% in 2018 to 8% in 2019. Of the 8% of post-Seed bridge financings that had warrants in 2019, 71% also had a discount on conversion into equity, up significantly from 2018, when 45% of post-Seed bridge financings that had warrants also had a discount on conversion.

The number of pre-Seed bridge loans that were convertible to equity at a discounted price fell from 83% in 2018 to 68% in 2019, and 81% of those loans were convertible at a discount rate of 20% or more on conversion. The number of post-Seed bridge loans that were convertible to equity at a discounted price also decreased from 85% in 2018 to 81% in 2019, with 73% of those receiving a discount rate of 20% or more on conversion.

Median Amount Raised – Bridge Loans



Bridge Loans – Deal Terms (WSGR Deals)[1]

Bridge Loans	2015 Pre-Seed	2016 Pre-Seed	2017 Pre-Seed	2018 Pre-Seed	2019 Pre-Seed	2015 Post-Seed	2016 Post-Seed	2017 Post-Seed	2018 Post-Seed	2019 Post-Seed
Interest rate less than 8%	74%	76%	75%	67%	87%	54%	52%	56%	65%	70%
Interest rate at 8%	19%	19%	17%	22%	4%	33%	30%	27%	25%	22%
Interest rate greater than 8%	7%	5%	8%	11%	9%	13%	17%	17%	10%	8%
Maturity less than 12 months	17%	17%	22%	21%	13%	34%	29%	41%	21%	26%
Maturity at 12 months	9%	5%	8%	13%	9%	8%	23%	19%	26%	14%
Maturity more than 12 months	74%	78%	69%	67%	78%	58%	49%	41%	53%	60%
Debt is subordinated to other debt	15%	20%	28%	23%	27%	38%	45%	33%	47%	49%
Loan includes warrants[2]	3%	8%	0%	4%	2%	25%	17%	16%	18%	8%
Warrant coverage less than 25%	100%	80%	N/A	0%	100%	47%	23%	43%	33%	80%
Warrant coverage at 25%	0%	0%	N/A	0%	0%	7%	15%	14%	11%	0%
Warrant coverage greater than 25%	0%	20%	N/A	100%	0%	47%	62%	43%	56%	20%
Principal is convertible into equity[3]	93%	97%	97%	90%	96%	86%	92%	92%	87%	96%
Conversion rate subject to price cap[4]	64%	79%	74%	69%	69%	26%	29%	34%	25%	51%
Conversion to equity at discounted price[5]	78%	82%	89%	83%	68%	71%	74%	76%	85%	81%
Discount on conversion less than 20%	11%	12%	16%	23%	18%	25%	25%	20%	20%	27%
Discount on conversion at 20%	73%	76%	74%	60%	63%	47%	49%	50%	48%	57%
Discount on conversion greater than 20%	16%	12%	10%	17%	18%	27%	26%	30%	33%	16%
Conversion to equity at same price as other investors	18%	13%	3%	14%	12%	25%	19%	24%	6%	11%

[1] We based this analysis on deals having an initial closing in the period to ensure that the data clearly reflects current trends. Please note the numbers do not always add up to 100% due to rounding.

[2] Of the 2015 post-Seed bridges with warrants, 58% also had a discount on conversion into equity. Of the 2016 post-Seed bridges with warrants, 33% also had a discount on conversion into equity. Of the 2017 post-Seed bridges with warrants, 60% also had a discount on conversion into equity. Of the 2018 post-Seed bridges with warrants, 45% also had a discount on conversion into equity. Of the 2019 post-Seed bridges with warrants, 71% also had a discount on conversion into equity.

[3] Of the 2016 pre-Seed convertible bridges, 93% had automatic conversion and 7% had voluntary conversion. Of the 2017 pre-Seed convertible bridges, 94% had automatic conversion and 6% had voluntary conversion. Of the 2018 pre-Seed convertible bridges, 98% had automatic conversion and 2% had voluntary conversion. Of the 2019 pre-Seed convertible bridges, 100% had automatic conversion. Of the 2016 post-Seed convertible bridges, 97% had automatic conversion and 3% had voluntary conversion. Of the 2017 post-Seed convertible bridges, 93% had automatic conversion and 7% had voluntary conversion. Of the 2018 post-Seed convertible bridges, 96% had automatic conversion and 4% had voluntary conversion. Of the 2019 post-Seed convertible bridges, 96% had automatic conversion and 4% had voluntary conversion. The 2016 median dollar threshold for a qualified financing in pre- and post-Seed bridges was $1M and $5M, respectively. The 2017 median dollar threshold for a qualified financing in pre- and post-Seed bridges was $2M and $10M, respectively. The 2018 median dollar threshold for a qualified financing in pre- and post-Seed bridges was $3M and $5M, respectively. The 2019 median dollar threshold for a qualified financing in pre- and post-Seed bridges was $3M and $8M, respectively.

[4] The 2016 median price cap in pre- and post-Seed bridges was $6M and $25M, respectively. The 2017 median price cap in pre- and post-Seed bridges was $10M and $25M, respectively. The 2018 median price cap in pre- and post-Seed bridges was $8M and $40M, respectively. The 2019 median price cap in pre- and post-Seed bridges was $9M and $35M, respectively.

[5] Of the 2015 post-Seed bridges that had a discount on conversion into equity, 21% also had warrants. Of the 2016 post-Seed bridges that had a discount on conversion into equity, 8% also had warrants. Of the 2017 post-Seed bridges that had a discount on conversion into equity, 13% also had warrants. Of the 2018 post-Seed bridges that had a discount on conversion into equity, 11% also had warrants. Of the 2019 post-Seed bridges that had a discount on conversion into equity, 7% had warrants.

A Founder's Guide to Y Combinator's Post-Money Safes

February 2020

(continued from page 1)

As we wrote about previously, the new Post-Money forms are intended to allow founders to better understand how much ownership of the company they have sold and what will be their exact dilution.

- **Post-Money Valuation Cap***: The company's valuation for calculating the conversion of the Safe is now measured after all of the Safe money is converted into shares (the prior form of Safe explicitly excluded Safes and convertible notes in the conversion calculation). This change to the conversion calculation results in additional dilution to the founders and existing stockholders, who are likely the early employees of the company, and potentially other investors who do not hold Post-Money Safes. Given that the Safe is now post-money, founders should plan to increase their valuation caps to reflect the post-money, rather than pre-money, funds that are being raised (i.e., if targeting a $1 million round on a $6 million pre-money, the post-money valuation cap should be $7 million). Essentially, the effect of this change is that every additional dollar raised using Post-Money Safes dilutes the founders and not the other Post-Money Safe holders. This makes it more dilutive to conduct sequential Safe financings or otherwise increase the amount of money you raise prior to your priced equity round either through increasing your Safe round or through conducting a second Safe round. Both methods are common fundraising roadmaps for founders. If founders do not aggressively negotiate up the valuation cap over time, then the founders can be subject to significant unexpected dilution (i.e., reduction in enterprise ownership).

To help offset the additional dilution resulting from the new conversion calculation in the new Safes, any option pool expansion in the subsequent equity financing into which the Safes convert (which is a common feature of priced equity financing term sheets) is now excluded from the share price calculations, and therefore will no longer have a dilutive effect on the founders. Under the original form of Safe, option pool expansions did result in Safe investors receiving additional shares upon conversion, so this change is helpful, but overall a founder is still likely to experience more dilution under the new Post-Money form of Safe.

To illustrate, in **Table 1** is a model of a capitalization table showing the dilution caused by a $1 million investment into a Post-Money Safe with a $5 million valuation cap, followed by an additional $2 million Series A investment at an $8 million pre-money valuation.

Table 1	Pre-Money Shares	Amount Invested	Post-Money Shares	Post-Money Fully Diluted Percentage
Common Stock (including prior Option Pool)	10,000,000	-	10,000,000	60%
Option Pool Increase of 5% Post-Money		-	833,333	5%
$5 Million Post-Money Capped Safe Investment		$1,000,000	2,500,000	15%
Series A Investment at $8 Million Pre-Money Valuation		$2,000,000	3,333,333	20%
Total	10,000,000	$3,000,000	16,666,666	100%

* This represents a change from the initial YC form in 2013.

By contrast, in **Table 2** is a model of a capitalization table showing the dilution caused by a $1 million investment into a Safe on the prior form with a $5 million valuation cap, followed by an additional $2 million Series A investment at an $8 million pre-money valuation.

- **Most Favored Nation**: One version of the Safe is the "MFN" Safe, which provides that the company must notify the Safe holder if it issues any subsequent Safes or other convertible securities and, if the company gives a later investor a better deal in their Safe or convertible security, the MFN Safe holder will also be entitled to the better deal. While the MFN obligation is generally in line with good investor relations (many founders choose to offer prior investors the benefit of more favorable terms agreed upon with subsequent investors as a way to maintain a supportive investor base), the notice obligation and potential paperwork associated with administering MFN rights can be expensive and a headache for early-stage startups. For this reason, if confronted with a demand for MFN rights, we recommend contacting counsel to help you understand next steps and consider potentially narrowing the provision, for example, to make clear that the investor is intended to only have one opportunity to amend their Safe into better terms and that the MFN would only apply where subsequent investors negotiate a more favorable conversion price discount for themselves, and it would not apply to ancillary rights (such as board observer rights) that the company may grant to future investors in connection with a Safe investment.

- **Conversion**: Safes automatically convert in the company's next equity financing. There is no limitation on how much money needs to be raised so long as it is a legitimate preferred stock financing with the primary purpose of raising capital.

Table 2	Pre-Money Shares	Amount Invested	Post-Money Shares	Post-Money Fully Diluted Percentage
Common Stock (including prior Option Pool)	10,000,000	-	10,000,000	62.5%
Option Pool Increase of 5% Post-Money		-	800,000	5%
$5 Million Capped Prior Safe Investment		$1,000,000	2,000,000	12.5%
Series A Investment at $8 Million Pre-Money Valuation		$2,000,000	3,200,000	20%
Total	10,000,000	$3,000,000	16,000,000	100%

You will notice in the highlighted cells above that since the post-money percentages of the Series A investors and of the option plan expansion are fixed (typically as agreed in the Series A term sheet), the Post-Money Safe's sole effect in terms of post-money ownership percentages is to reduce the ownership of the founders and other pre-financing stockholders and increase that of the Safe investors in a zero sum fashion.

- **Discount**: Some versions of the Safe provide that they convert at a discount to the share price of the new round, so early investors are rewarded with a discount for their early investment in the company (often 10-20%). Discounts are a popular mechanism to reward the risk investors take in funding early stage startups. Please read carefully when completing the "Discount Rate" in the Safe, which should reflect 100% minus the applicable discount (e.g., a 20% discount would yield an 80% Discount Rate).

Some investors request that the Safe be modified to include a minimum raise threshold. Such a minimum is thought to ensure that the investors in the equity financing will negotiate fair and market terms. The danger of accepting such a minimum raise requirement is that if your next equity financing does not exceed the minimum threshold, your new lead investor will likely condition closing on their Series A investment on the Safe investors agreeing to convert their Safes. The Safe holders can then leverage this situation to extract concessions from the founders. Therefore, before agreeing to this term, founders should ensure the minimum is well below the company's planned raise for its next equity round.

* This represents a change from the initial YC form in 2013.

- **Pro Rata Rights***: All updated versions of the Safe do not contain pro rata rights for Safe investors, whereas the prior forms provided that Safe investors by default would get pro rata rights in any fundraising rounds *after* the Safes convert (i.e., not in the Series A, but in the Series B). Now pro rata rights are moved to a separate, optional pro rata rights side letter available on Y Combinator's website. The pro rata rights formulation was also changed to provide that the investor would have pro rata rights in the round that causes the conversion of the Safe (i.e., the Series Seed/A into which the Safe converts). This new side letter format allows a founder to be more selective about exactly which investors are provided with pro rata rights and, as a result, generally helps facilitate more orderly future financings.

- **Sale of the Company**: In a sale of the company, Safe holders are entitled to get either their money back, or (if greater) the amount of sale proceeds they would have received if they converted their Safe immediately before the sale using the post-money conversion calculation (excluding the unissued option pool). We note that investors investing through Safes *after* completing a preferred stock financing, may request some modifications to the Safe, such as potentially including a backstop conversion of the Safe into the existing preferred stock, which is not otherwise contemplated in the Safe.

- **Shadow Preferred Stock**: When the Safes convert in a new financing, they convert into a shadow series of preferred stock that has the same rights as the rest of the preferred stock, but with a liquidation preference, conversion price (into common stock) and dividend rate that reflect the lower price at which the Safe investment converts into preferred stock. In other words, if by virtue of the discount or valuation cap, the Safes convert into preferred stock at a lower price per share than the regular Series A Preferred Stock issued to new cash investors, the Series A-1 Preferred Stock issued for the Safes will have a total liquidation preference which is equal to 1x of the cash amount raised under the Safes (on a *per share* basis this is a lesser liquidation preference than the regular Series A, but on a *dollar-for-dollar* basis, the liquidation preference for Series A-1 Preferred is equal to that of Series A Preferred). This prevents a "liquidation windfall" to the Safe holders who would otherwise have received extra liquidation preference given their discounted conversion price.

  To illustrate, in **Table 3** is a model of a capitalization table showing the liquidation preference outcomes in the same financing as above where the Safes convert into *Shadow Preferred Stock* (i.e., Series A-1 Preferred Stock) as opposed to Series A Preferred Stock (issued to new money investors).

Table 3	Pre-Money Shares	Amount Invested	Post-Money Shares	Liquidation Preference Per Share	Aggregate Liquidation Preference
Common Stock (including prior Option Pool)	10,000,000	-	10,000,000		-
Option Pool Increase of 5% Post-Money		-	833,333		-
$5 Million Post-Money Capped Safe Investment		$1,000,000	2,500,000	$0.40	$1,000,000
Series A Investment at $8 Million Pre-Money Valuation		$2,000,000	3,333,333	$0.60	$2,000,000
Total	10,000,000	$3,000,000	16,666,666		$3,000,000

By contrast, in **Table 4** (on page 10) is a model of a capitalization table showing the liquidation preference outcomes for the same financing as above where the Safes convert into full Series A Preferred Stock.

- **No Changes Acknowledgment***: The new forms now have disclaimer language at the beginning of the Safe that no changes have been made from the forms published by Y Combinator. Given that many modified forms of Safes are publicly available on the internet, potentially in ways that may or may not be

* This represents a change from the initial YC form in 2013.

Table 4	Pre-Money Shares	Amount Invested	Post-Money Shares	Liquidation Preference Per Share	Aggregate Liquidation Preference
Common Stock (including prior Option Pool)	10,000,000	-	10,000,000		-
Option Pool Increase of 5% Post-Money		-	833,333		-
$5 Million Post-Money Capped Safe Investment		$1,000,000	2,500,000	$0.60	$1,500,000
Series A Investment at $8 Million Pre-Money Valuation		$2,000,000	3,333,333	$0.60	$2,000,000
Total	10,000,000	$3,000,000	16,666,666		$3,500,000

favorable to founders or that may not work as expected or intended, the absence of this new language now notifies all parties that the Safe is not on the standard Y Combinator form. Therefore, if this language is deleted, be on the lookout for modifications that may not be favorable to you.

- **Representations**: Both the company and the investors make a few simple representations in the Safes to certify the legitimacy of the transaction. The company certifies that, among other things, the company was duly formed and is in good standing, the issuance of the Safe has been properly authorized (including by consent of the company's board of directors), the issuance of the Safe won't violate any of the company's other agreements and that the company owns its intellectual property. The Safe investors represent that they have the power to enter into the Safes and that they are accredited investors. While these representations are very light, care should be taken to make sure that all of these statements are true, otherwise the counterparty could sue for a violation of the Safe if things go south. In addition, if the investor turns out not to be accredited, the company is entitled to void the Safe and return the investor's money.

- **Amendments***: The new forms provide that a majority of Safe investors within the same tranche of Safes can vote to amend the Safes. Previously, each individual Safe holder had a standalone veto right on any changes to their own Safe. This change benefits the company in that no single, hold-out Safe holder can reject amendments approved by the company and a majority of the other investors in the same tranche of Safes.

- **Voting Rights**: Safe holders do not have any voting rights.

- **Securities Filings**: Safes are securities, and securities are highly regulated by the U.S. Securities and Exchange Commission (SEC) and state regulators, such as the California Department of Business Oversight if the offering occurs in California. Therefore, federal and state securities laws will apply whenever you issue Safes. The company should consult with its legal counsel to determine whether any federal or state securities filings are needed to comply with applicable securities laws. Failure to comply could result in investors having the right to demand their money back at any time, and frequently, Series A investors will require you to come into compliance with these securities laws prior to closing on their round of financing.

Conclusion

Safes are already among the most common ways for early stage companies in Silicon Valley and elsewhere to raise money. While Safes are designed to be straight-forward, the forms contain complex terms that both parties should fully understand. As the SEC mentioned in its May 2017 Investor Bulletin, a Safe may not be as simple or safe as is currently understood. We recommend that you read the Safe form that you are using closely to understand all the nuances and that you consult with your legal counsel if you have questions about Safes or are planning to conduct a Safe offering.

For more information, please contact Andrew Sparks, Dave Brekke, or any member of the corporate law practice at Wilson Sonsini Goodrich & Rosati.

Andrew Sparks
(415) 947-2068
asparks@wsgr.com

Dave Brekke
(650) 849-3230
dbrekke@wsgr.com

* This represents a change from the initial YC form in 2013.

Wilson Sonsini Methodology

- The Up/Down/Flat analysis is based on Wilson Sonsini deals having an initial closing in the period reported to ensure that the data clearly reflects current trends.
- The median pre-money valuation is calculated based on the pre-money valuation given at the time of the initial closing of the round. If the issuer has a closing in a subsequent quarter, the original pre-money valuation is used in the calculation of the median for that quarter as well.
- A substantial percentage of deals have multiple closings that span fiscal quarters. The median amount raised is calculated based on the aggregate amount raised in the reported quarter.

This report is based on detailed deal data provided by the firm's corporate and securities attorneys and analyzed by the firm's Knowledge Management department.

For purposes of the statistics and charts in this report, our database includes venture financing transactions in which Wilson Sonsini Goodrich & Rosati represented either the company or one or more of the investors.

650 Page Mill Road, Palo Alto, California 94304-1050 | Phone 650-493-9300 | Fax 650-493-6811 | www.wsgr.com

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For more information on the current venture capital climate, please contact any member of Wilson Sonsini Goodrich & Rosati's emerging companies practice. To learn more about Wilson Sonsini's full suite of services for entrepreneurs and early-stage companies, please visit the emerging companies section of wsgr.com.

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