



QAPITA

The NVCA *Playbook*

Term Sheets & VC Documents, Decoded

A founder and investor's guide to the industry-standard model documents plus the one cross-border blind spot the market keeps modeling wrong.

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INTRODUCTION

The paperwork that built the American venture industry

Every institutional venture round in the United States runs, in some form, through the same six documents. Since 2003, the National Venture Capital Association has published model legal documents that a coalition of venture attorneys drafts and periodically updates, and they have become the default starting point for term sheets from seed through Series D.

The documents were built to fix an asymmetry: historically, whichever side had the sharper lawyers set the terms. A shared, market-tested starting point levels that, and speeds up every negotiation that follows.

35,000+

Financings analyzed in
NVCA's Enhanced Term
Sheet dataset

2–3 wks

Faster average close using
standardized model docs,
per Goodwin Law

6

Core documents that make
up the full NVCA suite

What this guide does differently: most NVCA explainers stop at “here’s what a liquidation preference means.” We go further including one section on a structural cost almost nobody prices before it hits the cap table.

Who this is for: founders preparing to raise a priced round, and investors underwriting one — particularly where either side sits outside the U.S.

THE DOCUMENT SET

Six documents, one financing

The term sheet sets the deal.

These five definitive agreements are where it actually gets written into law.

1

Term Sheet

Non-binding outline of economics and control terms. The negotiation anchor only confidentiality and exclusivity clauses bind.

2

Certificate of Incorporation

The public charter. Authorizes preferred stock and sets out liquidation, conversion, and voting rights by class.

3

Stock Purchase Agreement

The definitive purchase contract: reps and warranties, closing conditions, indemnification framework.

4

Investors' Rights Agreement

Information rights, registration rights, rights of first offer on future rounds, and pro-rata participation.

5

Voting Agreement

Locks in board composition, drag-along obligations, and how key stockholder votes are cast.

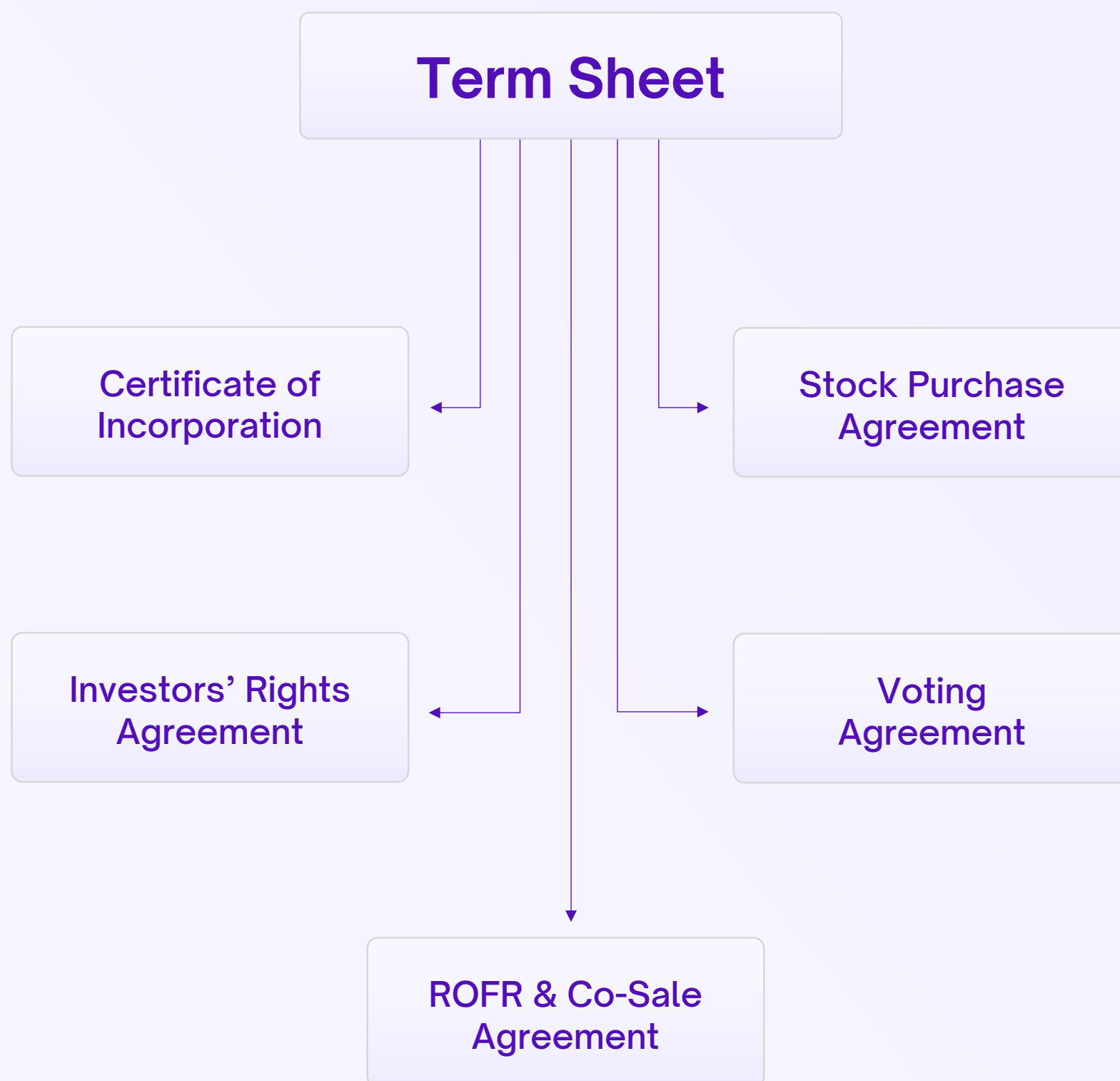
6

ROFR & Co-Sale Agreement

Restricts founder share transfers; gives the company and investors first refusal and tag-along rights.

THE SYSTEM

The term sheet is the map. These are the territory.



Every economic and control term negotiated in the term sheet gets written into one or more of these five agreements at closing. A term that looks settled on page one can still be renegotiated by sloppy drafting on page eleven — which is why lawyers on both sides read all six as one document, not five separate ones.

TERM SHEET ANATOMY ·

The economics terms

These four lines determine who owns what, and how much dilution actually happened.

Price / Valuation

Pre-money valuation plus new money in equals post-money. Every other percentage in the round derives from this one line including the size of the option pool you're about to give up.

Amount Raised

The new capital being invested this round, in exchange for a defined number of shares of the new preferred series.

Type of Security

Almost always preferred stock with a liquidation preference not common. This single choice is what makes VC dilution behave differently from a simple percentage split.

Capitalization

The fully-diluted share count the price is based on. Confirm it includes (or excludes) the expanded option pool that assumption alone can move effective valuation by several points.

Worked example: a \$6M raise on a \$18M pre-money is a \$24M post-money i.e investors own 25%. But if a 15% option pool is created pre-money in the same term sheet, founders and existing holders alone absorb that 15%, so their real dilution is noticeably higher than the headline 25% suggests.

TERM SHEET ANATOMY ·

The control terms

Economics decide the exit payout. Control terms decide whether founders still run the company by then.

Board Composition

Who sits on the board, and who appoints them. A common founder-friendly Series A structure is 2 founders, 1 investor, 1 mutually agreed independent but this compounds fast across rounds.

Protective Provisions

A list of company actions raising debt, selling the company, changing the charter that require a separate vote of preferred stockholders. This is where investors get control without needing board seats.

Drag-Along Rights

Forces minority holders to vote in favor of a sale approved by a specified majority. Written into the Voting Agreement, not the term sheet itself easy to skim past.

Information Rights

Financial reporting and inspection rights, typically tiered by investment size. Larger checks earn monthly financials; smaller ones get quarterly or annual only.

The compounding effect: each new financing round adds its own investor board seat and its own protective provisions. By Series C, a founder can face three or four separate stockholder consent requirements stacked on top of each other — map the cumulative control position, not just this round's ask.

DEEP DIVE

Liquidation preference, fully unpacked

The single term with the largest swing on exit proceeds and the one where market practice has shifted hardest since 2023.

NON-PARTICIPATING

Market standard

Investor takes the greater of (a) 1x their money back, or (b) their pro-rata share as-converted. They pick whichever pays more they don't get both.

~98%

of Q2 2025 U.S. rounds used this structure

PARTICIPATING

Increasingly rare, seen as “dirty”

Investor takes 1x back first, then also shares pro-rata in what's left with common sometimes capped at a multiple (e.g., 3x total). Founders and common holders absorb the difference.

Above 1x is now rare in new-money U.S. deals treat a request for >1x or full participation as a signal to renegotiate, not a formality to sign.

Stacking across rounds: each new preferred series usually sits senior to the last, so by Series C, three or four liquidation preferences can stack ahead of common model the full stack, not just your own round's term, before you sign.

Series C Preferred	Paid first →
Series B Preferred	Paid next →
Series A Preferred	Paid next →
Common Stocks	Paid last →

Illustrative payout order on exit — preferred stacks are paid in reverse chronological order (most recent round first) before common receives anything.

DEEP DIVE

Anti-dilution: the down-round insurance policy

If the company raises a future round at a lower price, anti-dilution provisions adjust the investor's conversion price effectively handing them more common shares on conversion, at the founders' expense.



Broad-Based Weighted Average

Market standard.

Adjustment formula includes the entire fully-diluted share count i.e. options, warrants, everything. The gentlest version; dilution to founders from a down round is modest and proportionate.



Narrow-Based Weighted Average

Less common, more aggressive.

Same formula, but only counts outstanding shares of common and preferred excluding the option pool. Produces a steeper price adjustment than broad-based for the same down round.



Full Ratchet

Rare, founder-hostile.

Conversion price resets to match the new, lower round price entirely regardless of how many shares were sold at that price. Even a small down round can cause outsized dilution to founders.

Reading the fine print: the difference between broad-based and narrow-based sounds academic until a down round actually happens, narrow-based can produce a meaningfully lower conversion price for investors on the same facts, simply because the denominator excludes the option pool.

DEEP DIVE

The option pool shuffle

A pre-money valuation isn't one number, it's a negotiation about who funds the new option pool.

The mechanic: when an investor sets aside a new option pool “pre-money,” the dilution from that pool comes entirely out of the founders’ and existing shareholders’ side of the cap table before the new investor’s money is even counted. The stated pre-money valuation ends up higher than the effective one.

Line Item	Stated Terms	What Actually Happen
Pre-money valuation	\$18.0M	\$18.0M (as stated)
New option pool (15%)	Created “pre-money”	Comes out of founder equity only
New investment	\$6.0M	\$6.0M
Post-money valuation	\$24.0M	\$24.0M
True founder dilution	-	Larger than the headline % suggests

Negotiation lever: ask whether the pool is being created pre- or post-money before you agree to a valuation number — the pool size and its timing are two separate negotiations wearing one number’s clothing.

10–20%

Typical post-money option pool size negotiated at Series A

1–5 pts

Effective valuation swing a pre- vs. post-money pool timing decision can create

DEEP DIVE

Protective provisions & board composition

Board seats decide day-to-day control. Protective provisions decide the handful of decisions where investors get a veto regardless of board makeup.

Typical actions requiring a separate preferred stockholder vote:

- Amending the charter or bylaws in a way that adversely affects preferred rights
- A sale of the company, merger, or other liquidity/change-of-control event
- Increasing or decreasing the size of the board
- Redeeming or repurchasing common stock outside standard employee agreements
- Authorizing a new series of stock senior to, or on par with, existing preferred
- Incurring debt above a specified threshold
- Declaring or paying a dividend
- Changing the authorized size of the option pool

Why this matters more than board seats

A founder can hold a board majority and still be unable to raise debt, issue new equity, or sell the company without preferred consent. Protective provisions are a veto layer that sits above board control read them as carefully as the board composition clause, not as boilerplate.

The Blind Spot

What the market isn't modeling

Every NVCA guide on the market covers the same ground the same way: what a liquidation preference is, why anti-dilution matters, when to negotiate a board seat. Almost none of them go past the question “**should an international founder flip to Delaware?**” to the harder one: what actually happens to the cap table, the preference stack, and the NVCA clauses themselves once that flip is done — and who pays for the gap.

The next four pages price that gap.

THE BLIND SPOT

Why founders restructure into Delaware

NVCA model documents assume a Delaware C-Corporation. A founder incorporated anywhere else the UK, Singapore, India, Canada who wants to raise from U.S. institutional VCs almost always has to “flip”: form a new Delaware parent that acquires the original company, which becomes a wholly-owned subsidiary underneath it.

The standard advice, everywhere you look, stops here:

Fund mandates

Many US VC funds are structurally restricted by their own LP agreements from investing directly in foreign entities at all.

QSBS eligibility

Qualified Small Business Stock treatment, worth up to 100% capital-gains exclusion on \$15M+ at exit, only exists for U.S. C-Corps.

Legal familiarity

Delaware’s corporate law is the most litigated and predictable body of law available investor counsel prices deals faster when they don’t have to underwrite a foreign statute.

Tax exposure for LPs

Direct investment into certain foreign corporations can trigger PFIC or CFC inclusions for a fund’s own investors — a cost fund counsel will not accept.

What almost nobody models: the flip decision gets treated as a one-time legal event with a fixed price tag from formation counsel. In practice it creates an ongoing, compounding operational cost that shows up at every future financing, every option grant, and every audit which the next three pages walk through.

THE BLIND SPOT · PART 2

The mirrored stack problem

A flip doesn't delete the original company. It creates two entities that now both need a cap table and they rarely agree.

Delaware Parent (NewCo, Inc.)

Holds NVCA preferred stock · Series A/B/C liquidation stack · U.S. investor registry · governed by DGCL

This is the cap table every NVCA document and every U.S. investor actually sees.



100% ownership — wraps original entity as wholly-owned subsidiary

Original Entity (now a subsidiary)

Retains local shareholder registry · pre-flip founder & angel shares · governed by home-country company law

This registry still exists and still has to be maintained, filed, and reconciled, indefinitely.

2

Separate legal registries to keep synchronized, indefinitely

1

NVCA document set drafted against only one of them

The blind spot: advisors model the flip as a single conversion event old shares in, new shares out, done. What actually persists is two parallel cap tables under two legal systems, and every subsequent NVCA financing document is drafted against only one of them.

THE BLIND SPOT

Where NVCA clauses silently break

Three provisions that read as routine boilerplate and quietly assume a cap table structure the mirrored-entity setup doesn't have.

1

Conversion mechanics

The Certificate of Incorporation's automatic-conversion trigger (a qualified IPO or majority preferred vote) fires only at the Delaware parent level. If the original entity's local shareholder registry hasn't been kept in lockstep, the subsidiary-level share count used for tax and statutory filings abroad can diverge from the converted U.S. share count a mismatch that surfaces at diligence, not at signing.

2

Drag-along obligations

The Voting Agreement's drag-along binds stockholders of record at the Delaware parent. Any early investor or employee still holding equity through the original foreign entity, common when a flip is done mid-way through a cap table's life, may fall outside the drag-along's legal reach entirely, creating a holdout risk nobody underwrote.

3

ROFR & co-sale triggers

Right of First Refusal provisions are typically drafted to trigger on any "transfer" of Delaware parent stock. A transfer that happens at the foreign subsidiary layer, an intra-family transfer of legacy shares, for instance, may not read as a transfer under the Delaware-drafted clause at all, defeating the protection's purpose.

THE BLIND SPOT

Pricing the reconciliation cost

This is the number formation counsel doesn't quote you at the time of the flip, because it isn't a legal fee, it's an operational one that recurs every round.

Cost Category	When It Hits	Who Absorbs It
Dual-registry data entry	Every option grant, transfer, or termination	Finance/legal ops, manually, twice
Diligence reconciliation	Every future financing round	Founders — as delay and legal spend
Cross-border 409A / valuation sync	Annually, or at each grant	Whoever owns cap table admin
Audit exceptions on share count mismatch	First institutional audit post-flip	Founders — as auditor fees and delay
Holdout / drag-along gap remediation	At exit, if discovered late	Everyone — deal risk at the worst time

The fix isn't avoiding the flip. It's treating the reconciliation as infrastructure, not an afterthought.

A single cross-border cap table system that keeps both registries synchronized in real time, rather than reconciled manually at each event converts a recurring legal-ops cost into a one-time platform decision. This is the operational layer NVCA documents assume exists, but never actually build for you.

NEGOTIATION REFERENCE

Market standard vs. aggressive

Use this as a gut-check before you sign, not as a script for a fight.

Terms	Market Standard (2025–26)	Treat as a Red Flag
Liquidation preference	1x, non-participating	Above 1x, or full participation
Anti-dilution	Broad-based weighted average	Full ratchet
Option pool	10–20% of post-money, negotiated pre-close	Oversized pool created pre-money without discussion
Board seats (Series A)	2 founders, 1 investor, 1 mutual independent	Investor board majority at Series A
Vesting on founder shares	4-year vesting, 1-year cliff, credit for time served	No credit for pre-financing time served
Pay-to-play	Included at Series B+ as standard hygiene	Absent entirely in a down-market raise
Redemption rights	Rare below growth stage	Mandatory redemption within 3–5 years

How to use this table: none of these red flags are automatic deal-breakers — aggressive terms sometimes reflect real risk the investor is pricing in, especially at seed or in a difficult market. Treat this as a prompt to ask why a term deviates from standard, not as a script to reject it outright.

FOUNDER'S CHECKLIST

Before you sign

- 01 Model the full liquidation stack across all prior rounds — not just this round's multiple
- 02 Confirm whether the new option pool is pre-money or post-money, and who it dilutes
- 03 Check the anti-dilution formula: broad-based weighted average, or something steeper
- 04 Read the protective provisions list line by line - not just the board composition clause
- 05 Verify vesting credit for time already served, if founders are re-papering existing shares
- 06 If incorporated outside the U.S., confirm whether a Delaware flip is actually required - or investor preference dressed as a requirement
- 07 If a flip has already happened, ask who owns cross-border cap table reconciliation going forward
- 08 Get final counsel review on drag-along and ROFR triggers if any equity sits outside the primary entity

INVESTOR'S CHECKLIST

What to diligence

01

Confirm the target entity matches the entity the NVCA documents are drafted for — no silent gaps between the Delaware parent and any foreign subsidiary

02

Request a full, current cap table reconciled across every entity in the structure, not a single-entity extract

03

Verify drag-along and ROFR provisions actually bind every stockholder, including any legacy holders sitting in a foreign entity

04

Check whether prior rounds used non-NVCA paper — flag any bespoke liquidation or anti-dilution terms that don't map cleanly

05

For cross-border targets, confirm who owns ongoing cap table maintenance post-close, and on what system

06

Review the option pool history for evidence of repeated pre-money “top-ups” that understate historical dilution

07

Confirm 409A / valuation cadence matches the jurisdiction's requirements, not just U.S. practice

REFERENCE

Glossary of key terms

Pre-money / Post-money

Company valuation before and after new investment is added.

Liquidation preference

The right of preferred stockholders to be paid before common on a liquidity event.

Participating preferred

Preferred stock that gets its preference back, then also shares remaining proceeds pro-rata.

Anti-dilution

Formula-based adjustment protecting investors from a lower-priced future round.

Protective provisions

Actions requiring a separate vote of preferred stockholders, regardless of board control.

Drag-along

Obligation for minority holders to vote in favor of an approved company sale.

ROFR / Co-sale

Right of first refusal and tag-along rights restricting founder share transfers.

Delaware flip

Restructuring a non-U.S. company under a new Delaware parent to raise U.S. venture capital.

QSBS

Qualified Small Business Stock — U.S. tax treatment offering capital-gains exclusion, C-Corps only.

Cap table reconciliation

Matching share records across every entity and registry a company operates under.

GLOBAL EQUITY, ONE SOURCE OF TRUTH

Your NVCA documents assume one clean cap table. Qapita makes that true even across borders.

Qapita is a global equity management platform serving 3000+ companies globally and is built to keep a single cap table synchronized across every entity a cross-border company operates under, so the reconciliation cost this guide walked through never has to be manual, or late.

[Talk to Qapita](#)

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