# SAFE Agreement Template

## Simple Agreement for Future Equity

**IMPORTANT:** This is a template for reference. Use Clerky.com ($799) or consult a lawyer for actual legal documents.

**Official SAFE documents:** https://www.ycombinator.com/documents

## What is a SAFE?

A **SAFE (Simple Agreement for Future Equity)** is an investment instrument created by Y Combinator that allows investors to invest money now and receive equity later (at a future priced round).

### Key Benefits

* ✅ **Fast:** Close in days/weeks vs. months for priced equity
* ✅ **Cheap:** $500-$1K legal fees vs. $10K-$20K for priced round
* ✅ **Simple:** 5-page document vs. 50+ pages for priced equity
* ✅ **Founder-friendly:** No interest, no maturity date, no board seats
* ✅ **Standard:** YC template, widely accepted by investors

## SAFE Agreement Terms (For Your Deal)

### Basic Terms

| Term | Value | Notes |
| --- | --- | --- |
| **Investor Name** | [Investor Name] | Person or entity investing |
| **Company Name** | [Your Company Legal Name] | Delaware C-Corp recommended |
| **Investment Amount** | $10,000 - $500,000 | Amount investor is contributing |
| **SAFE Type** | Valuation Cap + Discount | Most investor-friendly option |
| **Valuation Cap** | $1,500,000 - $2,000,000 | Maximum valuation for conversion |
| **Discount Rate** | 20% | Discount at next priced round |
| **Pro Rata Rights** | Yes (optional) | Investor can maintain % in future rounds |

## How a SAFE Works

### Investment Today

1. Investor gives you **$100,000**
2. You give investor a **SAFE note** (not equity yet!)
3. SAFE has two key terms:
   * **Valuation Cap:** $2,000,000
   * **Discount:** 20%

### Conversion at Next Round (Example)

**Scenario: 18 months later, you raise Series A** - Series A price: $10,000,000 pre-money valuation - Series A share price: $10.00/share

**Investor’s conversion options:** 1. **Use the cap:** $100,000 / $2M cap = **5% of company** (better for investor) 2. **Use the discount:** $100,000 at 20% discount = $100,000 / $8.00/share (not as good)

**Investor chooses:** Option 1 (the cap), gets 5% equity

**Your dilution:** - Investor got 5% for $100K investment - If they invested at Series A ($10M), they would only get 1% - **Investor’s benefit:** 5x better deal for taking early risk

## Four Types of SAFEs

### 1. Valuation Cap ONLY (Most Common)

**Terms:** - Valuation cap: $2M - No discount

**Conversion:** - Investor converts at the cap OR the next round price, whichever is LOWER

**Use when:** You want simplicity, willing to give cap but not discount

### 2. Discount ONLY

**Terms:** - No valuation cap - Discount: 20%

**Conversion:** - Investor converts at 20% discount to next round price

**Use when:** Very early stage, can’t estimate valuation yet

### 3. Valuation Cap + Discount (Recommended for You)

**Terms:** - Valuation cap: $2M - Discount: 20%

**Conversion:** - Investor uses whichever is BETTER for them (cap or discount)

**Use when:** Investor taking significant risk, you want to reward them

### 4. MFN (Most Favored Nation)

**Terms:** - No cap, no discount - Investor gets same terms as next SAFE investor

**Conversion:** - If you sell another SAFE with better terms, this investor gets those terms too

**Use when:** Friends & family, very early, uncertain terms

## Recommended SAFE Terms for Your Situation

### For a $10,000 Investment

**Recommended Structure:** - **Type:** Valuation Cap + Discount - **Valuation Cap:** $1,500,000 - **Discount:** 20% - **Pro Rata Rights:** Yes (optional)

**Why these terms:** - $1.5M cap is fair for pre-revenue (lower than my optimistic $3.5M) - 20% discount is standard (rewards early risk) - Pro rata lets investor maintain % (investor-friendly)

**What investor gets:** - If next round at $5M → Investor converts at $1.5M cap (better) - If next round at $1M → Investor converts at 20% discount (better) - Investor always gets best deal available

### For a $100K-$500K Round

**Recommended Structure:** - **Type:** Valuation Cap + Discount - **Valuation Cap:** $2,000,000 - **Discount:** 20% - **Pro Rata Rights:** Yes

**Why these terms:** - $2M cap is reasonable for larger round - Still rewards early investors significantly - Standard YC terms

## SAFE Agreement Template (Simplified)

**DO NOT USE THIS FOR ACTUAL LEGAL PURPOSES - Use Clerky.com or a lawyer**

SIMPLE AGREEMENT FOR FUTURE EQUITY  
  
THIS CERTIFIES THAT in exchange for the payment by [Investor Name] (the "Investor") of $[Amount] (the "Purchase Amount") on or about [Date], [Company Name], a Delaware corporation (the "Company"), issues to the Investor the right to certain shares of the Company's Capital Stock, subject to the terms described below.  
  
This Safe is one of the forms available at http://ycombinator.com/documents and the Company and the Investor agree that the Standard Instrument Terms incorporated by reference therein shall be binding on both parties.  
  
THE INVESTOR AND THE COMPANY AGREE AS FOLLOWS:  
  
1. EVENTS  
  
(a) Equity Financing. If there is an Equity Financing before the termination of this Safe, on the initial closing of such Equity Financing, this Safe will automatically convert into the number of shares of Safe Preferred Stock equal to the Purchase Amount divided by the Conversion Price.  
  
(b) Liquidity Event. If there is a Liquidity Event before termination of this Safe, this Safe will automatically be entitled to receive a portion of Proceeds equal to the greater of (i) the Purchase Amount or (ii) the amount payable on the number of shares of Common Stock equal to the Purchase Amount divided by the Liquidity Price.  
  
(c) Dissolution Event. If there is a Dissolution Event before this Safe terminates, the Investor will automatically be entitled to receive a portion of Proceeds equal to the Purchase Amount.  
  
(d) Termination. This Safe will expire and terminate upon the earlier of (i) the issuance of Capital Stock to the Investor pursuant to the automatic conversion of this Safe under Section 1(a); or (ii) the payment, or setting aside for payment, of amounts due the Investor pursuant to Section 1(b) or Section 1(c).  
  
2. DEFINITIONS  
  
"Conversion Price" means either: (1) the Safe Price or (2) the Discount Price, whichever calculation results in a greater number of shares of Safe Preferred Stock.  
  
"Discount Price" means the price per share of the Standard Preferred Stock sold in the Equity Financing multiplied by the Discount Rate.  
  
"Safe Price" means the price per share equal to the Valuation Cap divided by the Company Capitalization.  
  
"Discount Rate" means [80]%.  
[Note: 80% means a 20% discount]  
  
"Valuation Cap" means $[2,000,000].  
  
[Additional standard definitions follow...]  
  
3. COMPANY REPRESENTATIONS  
  
(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation.  
  
(b) The execution, delivery and performance by the Company of this Safe is within the power of the Company and has been duly authorized by all necessary actions.  
  
4. INVESTOR REPRESENTATIONS  
  
(a) The Investor has full legal capacity, power and authority to execute and deliver this Safe and to perform its obligations hereunder.  
  
(b) This Safe constitutes valid and binding obligation of the Investor, enforceable in accordance with its terms.  
  
5. MISCELLANEOUS  
  
(a) Any provision of this Safe may be amended, waived or modified only upon the written consent of the Company and the Investor.  
  
(b) All communications to the parties shall be made at the addresses indicated on the signature page.  
  
(c) The Investor confirms that this Safe has been negotiated, and this Safe has been executed and delivered, in the State of Delaware.  
  
IN WITNESS WHEREOF, the undersigned have caused this Safe to be duly executed and delivered.  
  
[COMPANY NAME]  
  
By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
Name: [Founder Name]  
Title: CEO  
  
Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
  
  
[INVESTOR NAME]  
  
Signature: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
Name: [Investor Name]  
Address: [Investor Address]  
Email: [Investor Email]  
  
Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

## How to Issue a SAFE (Step-by-Step)

### Step 1: Decide on Terms

* ☐ Investment amount: $\_\_\_\_\_\_\_\_
* ☐ Valuation cap: $\_\_\_\_\_\_\_\_
* ☐ Discount rate: \_\_\_\_%
* ☐ Pro rata rights: Yes / No
* ☐ Type: Cap only / Discount only / Cap + Discount / MFN

### Step 2: Use Clerky or Lawyer

**Option A: Clerky.com (Recommended for <$500K)** - Cost: $799 flat fee - Time: 15-30 minutes to complete - Includes: SAFE docs, board consent, stock ledger updates - Link: https://www.clerky.com

**Option B: Law Firm** - Cost: $2,000-$5,000 - Time: 1-2 weeks - Use when: Investment >$500K, complex terms, need legal review

**Option C: Y Combinator Template (DIY - Not Recommended)** - Cost: Free - Risk: Miss legal requirements, mistakes costly - Only if: Friends & family, very small amount (<$25K) - Link: https://www.ycombinator.com/documents

### Step 3: Execute Documents

* ☐ Company and investor sign SAFE agreement
* ☐ Board approves SAFE issuance (board consent)
* ☐ Update cap table with SAFE holder
* ☐ Store signed SAFE in secure location (Google Drive, Carta)

### Step 4: Receive Payment

* ☐ Investor wires funds to company bank account
* ☐ Confirm receipt
* ☐ Send signed SAFE copy to investor

### Step 5: Track on Cap Table

**Add to cap table:** - Investor name - Investment amount - SAFE terms (cap, discount) - Date of investment - Conversion status (unconverted)

**Use:** - Carta (https://carta.com) - $2K-$5K/year, industry standard - Spreadsheet template (free, see 06-CAP-TABLE-TEMPLATE.md)

## Common SAFE Questions

### Q: What if I never raise another round?

**A:** The SAFE doesn’t convert. Investor doesn’t get equity unless there’s: 1. Equity financing (priced round) 2. Liquidity event (acquisition) 3. IPO

**Mitigation:** Include dissolution clause (investor gets money back if company shuts down)

### Q: What if my next round is at a LOWER valuation than the cap?

**A:** Investor still converts at the lower valuation (SAFE cap doesn’t help them in down rounds, but discount does).

**Example:** - SAFE cap: $2M, discount 20% - Next round: $1M valuation - Investor converts at: $800K (1M × 80% discount) - gets 12.5% equity - If no discount, they’d convert at $1M - get 10% equity

### Q: Can I have multiple SAFEs with different terms?

**A:** Yes, but be careful: - Each investor can have different cap/discount - Later SAFEs should have SAME or HIGHER caps (don’t give better deal to later investors) - Track all SAFEs on cap table

**Example:** - First SAFE: $100K at $1.5M cap - Second SAFE: $200K at $2M cap (fair - higher cap) - Third SAFE: $50K at $1M cap (BAD - better deal than first investor, unless MFN clause)

### Q: What happens to SAFE holders when I raise Series A?

**A:** SAFEs automatically convert to equity at the Series A.

**Sequence:** 1. Series A lead sets price (e.g., $10M pre-money, $1.00/share) 2. SAFEs convert FIRST using their caps/discounts 3. THEN Series A investors get their shares 4. All shares issued together in one transaction

**Post-Series A cap table:** - Founders: X% - SAFE investors: Y% (converted) - Series A investors: Z% - Total: 100%

## When NOT to Use a SAFE

**Use priced equity round instead if:** - Investor demands board seat - Investor wants immediate equity (not future conversion) - Investment >$1M (institutional investors may want priced round) - You want specific investor protections (liquidation preferences, anti-dilution) - You’re raising your Series A (use priced equity)

**SAFEs are best for:** - Friends & family - Angels - Pre-seed / seed rounds <$500K - When you want to close fast and cheap

## Sample Cap Table Before/After SAFE

### Before SAFE

| Shareholder | Shares | % |
| --- | --- | --- |
| Founder | 10,000,000 | 100% |
| **Total** | **10,000,000** | **100%** |

### After $100K SAFE at $2M Cap

**SAFE not converted yet** (doesn’t show on cap table until priced round)

| Shareholder | Shares | % | Notes |
| --- | --- | --- | --- |
| Founder | 10,000,000 | 100% |  |
| SAFE Investor | - | - | $100K SAFE at $2M cap (unconverted) |
| **Total** | **10,000,000** | **100%** |  |

### After Series A ($5M Valuation)

**SAFEs convert, then Series A investors get shares**

**Step 1: SAFE Conversion** - SAFE investor converts at $2M cap (better than $5M round) - Gets: $100K / $2M = **5% of fully diluted** - Shares: 526,316 shares

**Step 2: Series A Investment** - Series A: $1M at $5M pre-money - Gets: $1M / $6M post-money = **16.67%** - Shares: 1,000,000 shares

**Final Cap Table:**

| Shareholder | Shares | % |
| --- | --- | --- |
| Founder | 10,000,000 | 78.33% |
| SAFE Investor | 526,316 | 5.00% |
| Series A Investor | 2,133,333 | 16.67% |
| **Total** | **12,659,649** | **100%** |

## Checklist: Closing a SAFE

* ☐ **Terms agreed** (amount, cap, discount)
* ☐ **Company incorporated** (Delaware C-Corp recommended)
* ☐ **Board approval** (if required by bylaws)
* ☐ **SAFE documents signed** (company + investor)
* ☐ **Funds received** (wire transfer or check)
* ☐ **SAFE recorded on cap table** (Carta or spreadsheet)
* ☐ **Investor gets signed copy** (email PDF)
* ☐ **Safe stored securely** (Google Drive, Dropbox, Carta)

**Timeline:** 1-7 days from terms to closed

## Resources

**Official SAFE Documents:** - Y Combinator SAFE templates: https://www.ycombinator.com/documents

**SAFE Issuance Services:** - Clerky: https://www.clerky.com ($799) - Gust Launch: https://gust.com/launch ($300-$500) - AngelList: https://angellist.com (varies)

**Cap Table Management:** - Carta: https://carta.com ($2K-$5K/year) - Pulley: https://pulley.com ($500-$2K/year) - Spreadsheet: See 06-CAP-TABLE-TEMPLATE.md

**Learning Resources:** - YC Startup School (SAFE explained): https://www.startupschool.org - Investopedia SAFE guide: https://www.investopedia.com/terms/s/simple-agreement-future-equity-safe.asp - TechCrunch SAFE explainer: Search “TechCrunch SAFE explained”

**DISCLAIMER:** This is educational material only. Consult a lawyer before issuing SAFEs. I am not a lawyer and this is not legal advice.

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