**[Project Name]**

**TOKEN SIDE LETTER***[[1]](#footnote-0)*

**of [date] [month] 202[y]**

| **Company** | [FULL NAME]; and |
| --- | --- |
| **Investor** | [FULL NAME], |
| each a **“Party”** and collectively the “**Parties**” have entered into this Token Side Letter (the **“Token Side Letter”**): | |

1. **Legal Status & Definitions**

This Token Side Letter is entered in connection with a convertible equity instrument between the Company and the Investor of [date] (the **“Convertible Agreement”**).

Capitalised terms in this Token Side Letter have the same meaning as in the Convertible Agreement, unless another definition is given to them in the Token Side Letter.

1. **Exercise**

If another legal entity in the Ecosystem (the **“Token Entity”**) launches or otherwise makes available blockchain-based native tokens of the project (the **“Tokens”**), the Company shall transfer or otherwise ensure the access to the Tokens to the Investor of the Investor’s Pro Rata portion of the Company’s or Contributors’ Allocation at the time of issuance:

**“Ecosystem”** means an interacting network of entities and individuals, to which the Company is a part, which is centred around the development of a common project.

**“Investor’s Pro Rata”** means ratio of the number of shares of Capital Stock issued from the conversion of all of the convertible equity instruments with a post-money valuation cap to the Company Capitalization:

If the Tokens are issued before the convertible equity instruments with a post-money valuation are converted, the Investor’s Pro Rata shall be determined as if the convertible equity instruments with a post-money valuation are converted without actually converting them.

**“Company’s or Contributors’ Allocation”** means the allocation and distribution of Tokens by Token Entity to the early investors into the Company and team members of the Company, including founders, employees, contractors, advisors, officers.

| To avoid any doubts and for the purposes of giving an example only:  **EXAMPLE 1** – if:   1. the Token Entity makes the Company’s or Contributors’ Allocation in an amount of 40% of the total Token supply; 2. the Investor holds 100,000 of the Company’s shares after the conversion of all convertible equity instruments with a post-money valuation cap; and 3. the total number of shares in the Company is 1,000,000,   then the Investor gets allocated a portion of Tokens of the total Token supply calculated as follows:  **EXAMPLE 2** – if:   1. the Token Entity makes the Company’s or Contributors’ Allocation in an amount of 40% of the total Token supply before the convertible equity instruments with a post-money valuation cap are converted; 2. the Investor holds a convertible equity instruments with a post-money valuation cap $2,000,000.00 and a value of $50,000.00; 3. there is another person holding a convertible equity instruments with a post-money valuation cap $2,000,000.00 and a value of $20,000.00 and the two of them are the only holders of such instruments with the same investment terms of such instruments (including valuation and discount rates); and 4. the total number of shares in the Company is 1,000,000,   then the Investor gets allocated a portion of Tokens of the total Token supply (without the actual conversion of the Investor’s convertible equity instrument) calculated as follows: |
| --- |

1. **General Provisions**

When this Token Side Letter is exercised, the Investor shall issue and deliver to the Company a public key (address) that will be used by the Company to deliver the Tokens.

The Tokens under this Token Side Letter may be subject to restrictions on transferability:

1. as required by any applicable law;
2. as determined by the board of directors of the issuer, acting in good faith and according to the advice of external legal counsel; and/or
3. as determined in the DAO constitution of the network, to which Tokens are native tokens.

It is the sole responsibility of the Investor to analyse the potential restrictions on the transferability of the Tokens in the law applicable to the Investor, their jurisdiction of residence, domicile and/or incorporation.

1. **Additional Provisions**

If the Company or the Token Entity enters into any document on the distribution of Tokens with any person (e.g. Simple Agreement for Future Tokens, Simple Agreement for Future Tokens and Equity, Private Token Sale Agreement, or another instrument where Tokens are main investment assets (the **“Token Agreement”**), then:

1. the Token Entity shall be obliged to enter into the Token Agreement of the same form and terms with the Investor and the value of that Token Agreement shall be equal to the value of the Convertible Agreement; and
2. the rights and obligations of the Parties under the Token Side Letter shall be terminated.
3. **Lock-Up**

Tokens under this Token Side Letter may be subject to a lock-up, which restricts the transfer of Tokens. The terms of the lock-up (lock-up period, vesting, waiver, if any) shall be determined by the Token Agreement.

1. **Non-Disclosure**

The Parties, their directors, officers, employees, consultants, counsel, accountants, and other agents shall not disclose any information disclosed to them in the process of negotiation of this Token Side Letter, its terms, and its existence, as well as any information about the business of the other Party.

1. **Own Account**

The Investor is acquiring this Token Side Letter for their own account and not as a nominee or agent, and not with a view to the resale or distribution of any part.

The Investor, if a legal entity, has not been formed for the specific purpose of acquiring this Token Side Letter.

1. **Dispute Resolution**

This Token Side Letter is governed by the laws applicable to the Convertible Agreement.

If the Parties face a dispute, they shall attempt to resolve it by negotiations. The contact email addresses mentioned below shall be used to resolve the dispute. If the Parties are unable to resolve the dispute by negotiations in 60 days after its commencement, it shall be resolved by the same means as specified in the Convertible Agreement.

1. **End-Terms**

This Token Side Letter and rights under it cannot be assigned, conveyed, or transferred by Investor, in whole or in part, without the Company’s prior written consent.

This Token Side Letter may be amended in writing together by the Company and the Investor.

If one or more provisions of this Token Side Letter are found unenforceable under the applicable law, such provision shall be excluded from this Token Side Letter to the extent they are unenforceable. The remainder of the Token Side Letter shall be interpreted as if such provisions were excluded and shall be enforceable in accordance with the remaining terms.

If this Token Side Letter cannot be executed without causing a violation of laws applicable to the Investor, their jurisdiction of residence, domicile and/or incorporation, this Token Side Letter shall be voided in full. The Company shall not be liable for any damages caused by the inability to execute this Token Side Letter due to regulatory restrictions. It is the sole responsibility of the Investor to analyse the potential restrictions on the execution of the Token Side Letter before entering into it.

1. **Signatures of the Parties**

| **COMPANY** | **Investor** |
| --- | --- |
| **[FULL NAME]** | **[FULL NAME]** |
| Address: [address]  Company number: [number]  Email: [email] | Address: [address]  [Company number / ID]: [number]  Email: [email] |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| **[name], [position]** | **[name], [position]** |

1. This document is a draft and provided to you for information purposes only. **It is not legal advice.** Before using it, make sure it is in line with the applicable law and a linked convertible equity instrument. Please consult a lawyer before using it.

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