

This sample document is the work product of a national coalition of attorneys who specialize in venture capital financings, working under the auspices of the NVCA. This document is intended to serve as a starting point only and should be tailored to meet your specific requirements. This document should not be construed as legal advice for any particular facts or circumstances. Note that this sample document presents an array of (often mutually exclusive) options with respect to particular deal provisions.

For those who will redline this against prior NVCA versions, new footnotes are identified as "New"; footnotes that are not new but contain substantive revisions since the prior NVCA version are flagged as "Revised".

## AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

### *Preliminary Notes*

#### General.

*The Certificate of Incorporation is a key document produced in connection with a venture capital portfolio investment. Among other things, the Corporation's Certificate of Incorporation establishes the powers, preferences and special rights of each class and series of the Corporation's stock.*

#### No Impairment Clause.

*A "no impairment" clause is a broad and general provision that prohibits the Corporation from acting (or failing to act) in a way that would circumvent the express and specific provisions of the Certificate of Incorporation. Although Delaware courts narrowly construe "no impairment" clauses<sup>1</sup>, such provisions can be dangerous, both to the Corporation and to the controlling investors, because they can give rise to claims of violation by disgruntled minority investors looking for some grounds on which to base a claim, in the absence of any specific protective provisions in the Certificate of Incorporation. In addition, in a transaction in which the terms of the outstanding Preferred Stock are to be amended, specifically the anti-dilution and conversion rights, certain law firms have taken the position that the existence of a "no impairment" clause in the Certificate of Incorporation requires their firm to express no opinion with regard to the stockholder action taken in connection with the subject transaction, and instead assume for purposes of their opinion that the Corporation has complied with the provisions of the "no impairment" clause. If appropriate attention is paid to the specific, substantive provisions of the Certificate of Incorporation, there is no need for a vague catchall, which may give rise to the problems described above. Accordingly, the drafters intentionally did not include a "no impairment" clause in this model charter.*

#### Pay-to-Play Provision.

*This model charter includes a sample "pay-to-play" provision, pursuant to which Preferred Stock investors are penalized if they fail to invest to a specified extent in certain future rounds of financing. The provision included provides for conversion into Common Stock of some or all of the Preferred Stock held by non-participating investors.*

#### Blank Check Preferred.

*Blank check preferred is the term used when the Certificate of Incorporation authorizes shares of undesignated Preferred Stock and grants the Board of Directors the authority to create a new series of Preferred Stock and establish the powers, preferences, and special rights of such series. Without this express grant of authority to the Board of Directors, the Corporation would need to obtain stockholder approval to amend the Certificate of Incorporation to create a new series of Preferred Stock. The drafters*

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<sup>1</sup> See *Kumar v. Racing Corp. of Am.*, 1991 WL 67083 (Del. Ch. Apr. 26, 1991).

*view the inclusion of blank check preferred in a Certificate of Incorporation for a venture backed company as unusual. Accordingly, this model charter assumes that blank check preferred will not be used and the drafters intentionally did not include a provision authorizing blank check preferred.*

#### *Choice of Jurisdiction.*

*This form is set up for a portfolio company incorporated in Delaware. Delaware is generally the preferred jurisdiction for incorporation of venture-backed companies for many reasons, including:*

- 1. The Delaware General Corporation Law (the “DGCL”) is a modern, current, and internationally recognized and copied corporation statute which is updated annually to take into account new business and court developments;*
- 2. Delaware offers a well-developed body of case law interpreting the DGCL, which facilitates certainty in business planning;*
- 3. The Delaware Court of Chancery is considered by many to be the nation’s leading business court, where judges expert in business law matters deal with business issues in an impartial setting; and*
- 4. Delaware offers an efficient and user-friendly Secretary of State’s office permitting, among other things, prompt certification of filings of corporate documents.*

*Please note the following special considerations if the Corporation is located in California, even though incorporated in Delaware:*

#### *Considerations for Corporation with California Shareholders and Operations.*

*Section 2115 of the California Corporations Code provides that certain provisions of California corporate law are applicable to foreign corporations (e.g., one incorporated in Delaware), to the exclusion of the law of the state of incorporation, if more than half of the Corporation’s shareholders and more than half its “business” (a defined formula based on property, payroll and sales) are located in California. As a result, some companies based in California may be subject to certain provisions of the California corporate law despite being incorporated in another state, such as Delaware (although, as noted below, it is not clear that courts will apply Section 2115 if the law of the jurisdiction of incorporation is inconsistent with the provisions of Section 2115). Section 2115 does not apply to public companies listed on the New York Stock Exchange, the NYSE MKT, the NASDAQ Global Market or the NASDAQ Capital Market.*

*One provision of the California Corporations Code that applies to such “quasi-California” corporations is Section 708, which requires that shareholders be permitted to cumulate votes in the election of directors. However, Section 2115 does not require corporations to set forth this right in their articles or bylaws, and most Silicon Valley companies that are subject to Section 2115 do not do so. Under Delaware law, a corporation must include a provision in its Certificate of Incorporation in order to allow cumulative voting (see Section 214 of the DGCL). Therefore, should a stockholder choose to exercise its right to cumulate votes under Sections 2115 and 708 of the California Corporations Code, the corporation may find itself forced to choose between violating those provisions if it denies cumulative voting, or violating Section 214 of the DGCL if it allows it. Current California case law enforces a shareholder’s rights to cumulate votes in this situation, relying on the language of Section 2115 stating that the cited provisions of the California Code apply “to the exclusion of the law of the jurisdiction in which [the corporation] is incorporated.” See *Wilson v. Louisiana-Pac. Res., Inc.*, 187 Cal. Rptr. 852 (Ct. App. 1982). However, a Delaware case, *VantagePoint Venture Partners 1996 v. Examen, Inc.*, 871 A.2d 1108 (Del. 2005), held that the provisions of Section 2115 of the California Corporation Code, insofar as they purport to regulate what stockholder*

*vote is required to approve a corporate action, are inapplicable to a Delaware corporation, regardless of the Corporation's California contacts. In late May 2012, a California Court of Appeals case, Lidow v. Superior Ct., 141 Cal. Rptr. 3d 729 (Ct. App. 2012), for the first time signaled acceptance of the analysis in VantagePoint by a California court; however, this decision did not explicitly speak to Section 2115 and practitioners remain advised that it may be prudent for "quasi-California" corporations to comply with Section 2115 whenever possible.*

*Another provision applicable to such "quasi-California" corporations is the restriction on distributions to shareholders under Section 500 of the California Corporations Code. California Corporations Code Section 166 defines "distributions to shareholders" to include all transfers of cash or property to shareholders without consideration, including dividends paid to shareholders (except stock dividends), and the redemptions or repurchases of stock by a corporation or its subsidiary (subject to certain exclusions, such as the repurchase of stock held by employees). The consequence of this broad definition is that dividends, stock repurchases, and stock redemptions are all subject to the same tests and restrictions. Unlike Delaware law, which generally permits companies to pay dividends or make redemptions as long as the Corporation is solvent following the transaction, California law prohibits such payments unless the Corporation meets certain mechanical tests (in particular, that either retained earnings equal or exceed the size of the proposed distribution or that assets equal or exceed current liabilities). Additionally, California requires quasi-California companies to take "preferential dividends" and "preferential rights" into account when making distributions. However, California does allow such companies to waive these preferred stock considerations. As a result of the restrictions in Section 500, quasi-California companies may be precluded by California law from making a required dividend or redemption payment, even though such a payment would be permissible under Delaware law. Under California Corporations Code Section 316(a)(1), also applicable to "quasi-California" corporations, directors are liable to the corporation for illegal distributions if they acted willfully or negligently with respect to such a distribution.*

*The limitations on director and officer indemnification under Section 317 of the California Corporations Code also purport to be applicable to a "quasi-California" corporation. As a result, counsel may want to tailor indemnification provisions for a "quasi-California" corporation to reflect California law so that all parties have consistent expectations with regard to indemnification of officers and directors.*

*Finally, Section 1001 and 1101, and Chapter 12 and 13 of the California Corporations Code also purport to apply to "quasi-California" corporations. These provisions deal with mergers, reorganizations, and asset sales, including voting rights and the application of California dissenters' rights. California may require class votes on sale transactions, so parties should consider whether additional voting agreements are appropriate to secure a possible Common Stock class vote in such a transaction. Additionally, in contrast to Delaware law, California law will grant dissenters' rights in connection with the sale of assets in exchange for stock of an acquiring corporation. Furthermore, California law will require a fairness opinion in connection with certain interested party transactions, so the parties should take particular care if a merger, reorganization or asset sale involves a potentially interested party.*

**AMENDED AND RESTATED<sup>2</sup>**  
**CERTIFICATE OF INCORPORATION**  
**OF**  
[\_\_\_\_\_]

(Pursuant to Sections 242 and 245 of the  
General Corporation Law of the State of Delaware)

[\_\_\_\_\_], a corporation organized and existing under and by virtue of the provisions of the General Corporation Law of the State of Delaware (the “**General Corporation Law**”),

**DOES HEREBY CERTIFY:**

**1.** That the name of this corporation is [\_\_\_\_\_], and that this corporation was originally incorporated pursuant to the General Corporation Law on [\_\_\_\_\_, 20\_\_] [under the name [\_\_\_\_\_]].<sup>3</sup>

**2.** That the Board of Directors of this corporation (the “**Board of Directors**”) duly adopted resolutions proposing to amend and restate the Certificate of Incorporation of this corporation, declaring said amendment and restatement to be advisable and in the best interests of this corporation and its stockholders, and authorizing the appropriate officers of this corporation to solicit the consent of the stockholders therefor, which resolution setting forth the proposed amendment and restatement is as follows:

**RESOLVED**, that the Certificate of Incorporation of this corporation be amended and restated in its entirety to read as follows:

**FIRST:** The name of this corporation is [\_\_\_\_\_] (the “**Corporation**”).

**SECOND:** The address of the registered office of the Corporation in the State of Delaware is [\_\_\_\_\_], in the City of [\_\_\_\_\_], County of [\_\_\_\_\_]. The name of its registered agent at such address is [\_\_\_\_\_].

**THIRD:** The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law.

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<sup>2</sup> Pursuant to Section 242 of the DGCL, a Delaware corporation “may amend its certificate of incorporation, from time to time, in any and as many respects as may be desired, so long as its certificate of incorporation as amended would contain only such provisions as it would be lawful and proper to insert in an original certificate of incorporation filed at the time of the filing of the amendment.” Section 242(b) of the DGCL sets forth the specific requirements that must be followed to properly effect an amendment. Section 245 of the DGCL further permits a Delaware corporation to restate its Certificate of Incorporation in order to “integrate into a single instrument all of the provisions of its certificate of incorporation which are then in effect and operative.” Section 245(c) of the DGCL requires that a restated Certificate of Incorporation shall be specifically designated as such in its heading.

<sup>3</sup> Section 245(c) of the DGCL requires that a restated Certificate of Incorporation state, either in its heading or in an introductory paragraph, the Corporation’s present name (and, if it has changed, the name under which it was originally incorporated) and the date the original Certificate of Incorporation was filed with the Secretary of State of Delaware.

**FOURTH:** The total number of shares of all classes<sup>4</sup> of stock which the Corporation shall have the authority to issue is [\_\_\_\_]. The Corporation has [two] classes of stock, referred to as Common Stock and Preferred Stock. There are [\_\_\_\_] shares of authorized Common Stock, \$[\_\_\_\_] par value per share (“**Common Stock**”),<sup>5</sup> and [\_\_\_\_] shares of authorized Preferred Stock, \$[\_\_\_\_] par value per

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<sup>4</sup> If the Corporation has different types of Common Stock (such as A-B high and low vote, or Class F for founders, or otherwise), the number and type of those shares would need to be included here. If there are multiple types of Common Stock, consideration should be given to whether the different types of Common Stock are to be separate classes, or series of the same class. This can be important because the DGCL provides for default class voting for certain types of amendments, and whether the stock is a class or series will be relevant to whether they vote separately as a class or together with the other series of Common Stock on those amendments. Generally if a type of stock is named “Class \_\_ Common Stock”, it will be viewed as a separate class, and not as a series, and thus have separate class voting rights on such amendments, unless there is very clear and unambiguous language indicating that, notwithstanding its name, it is a series. See *Garfield v. Boxed, Inc.*, 2022 WL 17959766 (Del. Ch. Dec. 27, 2022) where the Court indicated that the Class A and Class B Common Stock were likely separate classes of stock and not series within a class and thus likely entitled to vote separately on an amendment increasing the authorized number of Class A Common Stock and eliminating the Class B Common Stock. An example of language intended to make clear that types of Common Stock named “Class \_\_ Common Stock” are in fact series of the class of Common Stock is as follows: “The class of Common Stock shall be subdivided into two series consisting of \_\_\_\_ shares designated as Class A Common Stock, (the “**Class A Common Stock**”), and \_\_\_\_ shares designated as Class B Common Stock (the “**Class B Common Stock**”). For the avoidance of doubt, the Class A Common Stock and the Class B Common Stock are separate series within the class of Common Stock, and not separate classes of stock.” Also, even if the types of Common Stock are classes rather than series, the separate class vote on an amendment increasing or decreasing the number of authorized shares of a class can be eliminated by including the bracketed language in Section A.2 of this Article Fourth associated with footnote 8 below with respect to such class.

<sup>5</sup> The number of authorized shares of Common Stock should be high enough to cover all outstanding shares of Common Stock, plus all shares of Common Stock issuable (i) upon exercise of outstanding options and all other uncommitted shares of stock available for grant under the stock plan pool, (ii) upon the conversion of shares of designated Preferred Stock, including, if applicable, accrued dividends, (iii) upon the exercise or conversion of all other securities exercisable for or convertible into Common Stock (*e.g.*, warrants and convertible promissory notes), and (iv) within a reasonable time frame in respect of any compounding dividend, if applicable. Consideration should also be given to authorizing additional shares of Common Stock to permit the Board of Directors to issue such stock in connection with future events, such as acquisitions of other companies or businesses or in lending transactions. Note, however, that many venture capital investors will not permit the authorization of significant amounts of (or even any) additional shares of Common Stock.

The decision to select par or no par stock and, if par, what par value, has two consequences. First, as explained in more detail below, it affects the filing fee owed to the State of Delaware upon filing the Certificate of Incorporation. Second, in Delaware, the aggregate par value of the outstanding stock is subtracted from the net assets of the Corporation in determining the amount of the Corporation’s funds that are “surplus” lawfully available for the payment of dividends and the repurchase or redemption of stock. See Section 154 of the DGCL (setting forth how “surplus” is calculated), 170(a) (setting forth the sources of funds from which dividends may lawfully be paid), 160(a) (setting forth the sources of funds from which stock may lawfully be redeemed or repurchased). As discussed below, both of these consequences counsel in favor of assigning to stock a low par value (but not no par value). The concept of paid-in capital being an asset dedicated to protecting creditors has passed. Creditors no longer rely solely upon paid-in capital or upon the statutory restrictions upon dividends, redemptions, and other distributions to stockholders that “impair” capital to protect their interests. Instead, creditors negotiate and rely upon a wide variety of contractual arrangements to protect their interests, including, for example, loan covenants, security interests, and third-party guarantees. See generally Manning and Hanks, *Legal Capital* (3d Ed. 1990).

Corporations incorporated in Delaware are subject to fees for filing their certificates of incorporation and also are required to pay an annual franchise tax. Filing fees for a Certificate of Incorporation are calculated based on the number of authorized shares, and filing fees for an amendment increasing the number of authorized shares are calculated based on the increase in the number of authorized shares. There is no cap on filing fees. For purposes of computing the filing fee on par value stock, each \$100 of authorized capital stock is counted as one taxable share.

share (“**Preferred Stock**”), [all] of which are hereby designated as “**Series A Preferred Stock**”.

The following is a statement of the designations and the powers, preferences and special rights, and the qualifications, limitations or restrictions thereof in respect of each class of capital stock of the Corporation.

#### A. COMMON STOCK

1. General. The voting, dividend and liquidation rights of the holders of the Common Stock are subject to and qualified by the powers, preferences and special rights of the holders of the Preferred Stock set forth herein.

2. Voting. Except as otherwise provided herein or by applicable law, the holders of the Common Stock shall be entitled to one vote for each share of Common Stock held as of the applicable record date for each meeting of stockholders (and written actions in lieu of meetings); provided, however, that, except as otherwise required by law, holders of Common Stock, as such, shall not be entitled to vote on any amendment to this Amended and Restated Certificate of Incorporation (this “**Certificate of Incorporation**”) that relates solely to the terms of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together with the holders of one or more other such series, to vote thereon pursuant to this Certificate of Incorporation or pursuant to the General Corporation Law].<sup>6</sup> [There shall be no cumulative voting.]<sup>7</sup> [The number of authorized shares of Common

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Accordingly, assigning a low par value to stock can result in a significant reduction in the filing fee. For example, the filing fee for 10,000 shares with a par value of one cent is the same as the filing fee for one share with a par value of \$100. No par stock is assumed to be \$100 par for this purpose. Accordingly, in order to minimize the filing fees, a low par value of one cent or less is recommended.

In addition to the filing fees described above, Delaware corporations are required to pay an annual franchise tax which can be no lower than \$175 per annum and no greater than \$200,000 per annum (except in the case of certain public companies that qualify as a “large corporate filer” that are required to pay \$250,000). Within this range, the franchise tax due is the lesser of the amount calculated either on the basis of number of authorized shares (currently \$85 per 10,000 authorized shares) or on the basis of an alternative method which takes into account the Corporation’s gross assets and the ratio of its authorized to its issued shares; as a result, the greater the overhang, the greater the franchise tax under the alternative method. Unlike with the filing fee, the par value of the authorized stock does not generally affect the amount of the annual franchise tax owed under the authorized shares method. The tax is based on authorized shares, not only the number of shares that are issued and outstanding, and in the case of the alternative method, the percentage of the authorized shares that are actually issued (with a larger overhang resulting in a higher tax). Accordingly, it is advisable to consider the franchise taxes that will result from a particular capitalization before choosing it.

<sup>6</sup> This proviso is intended to ensure that, where an amendment to the Certificate of Incorporation (or a Certificate of Designations created pursuant to any “blank check” authority) affects only a series of Preferred Stock, such amendment may be approved by the holders of the affected series of Preferred Stock alone, without the necessity of approval by the holders of Common Stock. Section 212 of the DGCL states that, unless otherwise provided in the Certificate of Incorporation, each share of capital stock is entitled to one vote on all matters presented to stockholders for a vote. Any amendment to the Certificate of Incorporation must be effected in accordance with the procedure in Section 242 of the DGCL, which typically includes the vote of the holders of the Common Stock. Accordingly, it may be desirable to provide in the Certificate of Incorporation that only the holders of the affected series of Preferred Stock need vote on an amendment to the terms of such series. If this provision is not in the original Certificate of Incorporation, adding it will require a class vote of the Common Stock.

<sup>7</sup> See the introductory notes regarding Section 2115 of the California Corporations Code. Alternative provision: “No person entitled to vote at an election for directors may cumulate votes to which such person is entitled, unless, at the time of such election, the Corporation is subject to Section 2115 of the California Corporations Code. During such

Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by (in addition to any vote of the holders of one or more series of Preferred Stock that may be required by the terms of this Certificate of Incorporation) the affirmative vote of the holders of shares of capital stock of the Corporation representing a majority of the votes represented by all outstanding shares of capital stock of the Corporation entitled to vote, irrespective of the provisions of Section 242(b)(2) of the General Corporation Law.]<sup>8</sup>

## B. PREFERRED STOCK

The shares of the Preferred Stock shall have the powers, preferences and special rights set forth in this Part B of this Article Fourth. Unless otherwise indicated, references to “sections” or “Sections” in this Part B of this Article Fourth refer to sections of Part B of this Article Fourth. References to “Preferred Stock” mean the Series A Preferred Stock.

### 1. Dividends.<sup>9</sup>

*[Use the following paragraph if the Term Sheet calls for no specific dividend on the Preferred Stock, but an equal sharing if dividends are declared on the Common Stock.]*

The Corporation shall not declare, pay or set aside any dividends on shares of any other class or series of capital stock of the Corporation (other than dividends on shares of Common Stock payable in shares of Common Stock<sup>10</sup>) unless (in addition to the obtaining of any consents required elsewhere in this Certificate of Incorporation) the holders of the Preferred Stock then outstanding shall first receive, or simultaneously receive, a dividend on each outstanding share of Preferred Stock in an amount at least equal to (i) in the case of a dividend on Common Stock, the product of (A) the dividend declared, paid or set aside on such Common Stock and (B) the number of shares of Common Stock issuable upon conversion of a share of such Preferred Stock; (ii) in the case of a dividend on a class or series of capital stock that is convertible into Common Stock, the product of (A) the dividend declared, paid or set aside per share of

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time or times that the Corporation is subject to Section 2115(b) of the California Corporations Code, every stockholder entitled to vote at an election for directors may cumulate such stockholder’s votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which such stockholder’s shares are otherwise entitled, or distribute the stockholder’s votes on the same principle among as many candidates as such stockholder desires. No stockholder, however, shall be entitled to so cumulate such stockholder’s votes unless (i) the names of such candidate or candidates have been placed in nomination prior to the voting, and (ii) the stockholder has given notice at the meeting, prior to the voting, of such stockholder’s intention to cumulate such stockholder’s votes. If any stockholder has given proper notice to cumulate votes, all stockholders may cumulate their votes for any candidates who have been properly placed in nomination.” Under cumulative voting, the candidates receiving the highest number of votes, up to the number of directors to be elected, are elected.

<sup>8</sup> Including the final bracketed sentence requires the approval of the holders of Common Stock unless such provision was contained in the original Certificate of Incorporation. Without such a provision, the holders of the Common Stock effectively retain a class protective vote on subsequent equity financings if the number of authorized shares of Common Stock would need to be increased to accommodate the conversion rights of securities issued in such financings. Similar language should be considered vis-à-vis Preferred Stockholders if they are not intended to have a block on future financings. See also footnote 4.

<sup>9</sup> This model charter provides for three bracketed alternative dividend provisions. There are a variety of other alternatives that may be encountered in the marketplace, but the drafter should be able to easily adapt one of the three provisions to provide for whatever dividend terms are applicable to a particular transaction.

<sup>10</sup> The reason for this exclusion (and the comparable exclusion in the alternative dividend provisions that follow) is that such dividends are covered by the provisions of Section 4.6 which adjust the Conversion Price in the event of such a dividend.

such class or series of capital stock and (B) the number of shares of Common Stock issuable upon conversion of a share of such Preferred Stock, divided by the number of shares of Common Stock issuable upon conversion of a share of such class or series of capital stock; or (iii) in the case of a dividend on any class or series that is not convertible into Common Stock, the product of (A) the amount of the dividend payable on each share of such class or series of capital stock divided by the original issuance price of such class or series of capital stock (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to such class or series) and (B) the applicable Original Issue Price (as defined below); provided that, if the Corporation declares, pays or sets aside, on the same date, a dividend on shares of more than one class or series of capital stock of the Corporation, the dividend payable to the holders of Preferred Stock pursuant to this Section 1 shall be calculated based upon the dividend on the class or series of capital stock that would result in the highest Preferred Stock dividend for the applicable series of Preferred Stock. The “**Original Issue Price**” shall mean, with respect to the Series A Preferred Stock, \$[insert initial Series A purchase price] per share, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the applicable Preferred Stock.

*[Use the following paragraph if the Term Sheet calls for a specific dividend amount, payable only when, as and if declared by the Board, in addition to pari passu/shared dividends.]*

The holders of then outstanding shares of Preferred Stock shall be entitled to receive, only when, as and if declared by the Board of Directors, out of any funds and assets legally available therefor, dividends equal to the applicable Dividend Amount (as defined below) for each share of Preferred Stock, prior and in preference to any declaration or payment of any other dividend (other than dividends on shares of Common Stock payable in shares of Common Stock) during the same calendar year<sup>11</sup>. The right to receive dividends on shares of Preferred Stock pursuant to the preceding sentence of this Section 1 shall not be cumulative, and no right to dividends shall accrue to holders of Preferred Stock by reason of the fact that dividends on such shares are not declared or paid. Payment of any dividends to the holders of Preferred Stock shall be on a pro rata, *pari passu*<sup>12</sup> basis in proportion to the applicable Dividend Amount for each series of Preferred Stock. Subject to the preferential rights described above, the Corporation shall not declare, pay or set aside any dividends on shares of any other class or series of capital stock of the Corporation (other than dividends on shares of Common Stock payable in shares of Common Stock) in any calendar year unless (in addition to the obtaining of any consents required elsewhere in this Certificate of Incorporation) the holders of the Preferred Stock then outstanding shall first receive, or simultaneously receive, in addition to the dividends payable pursuant to the first sentence of this Section 1, a dividend on each outstanding share of Preferred Stock in an amount at least equal to (i) in the case of a dividend on Common Stock, the product of (A) the dividend declared, paid or set aside on such Common Stock and (B) the number of shares of Common Stock issuable upon conversion of a share of such Preferred Stock; (ii) in the case of a dividend on a class or series of capital stock that is convertible into Common Stock, the product of (A) the dividend declared, paid or set aside per share of such class or series of capital stock and (B) the number of shares of Common Stock issuable upon conversion of a share of such Preferred Stock, divided by the number of shares of Common Stock issuable upon conversion of a share of such class or series of capital stock; or (iii) in the case of a dividend on any class or series that is not convertible into Common Stock, the product of (A) the amount of the dividend payable on each share of such class or series of capital stock divided by the original issuance

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<sup>11</sup> If the Corporation declares more than one Common Stock dividend in a given year, the Preferred Stock should not get two annual dividends in that year. Determining entitlement to dividends on a calendar year basis rather than on a rolling 12 month basis should be simpler.

<sup>12</sup> For simplicity, this model charter provides for *pari passu* dividends. If one series of Preferred Stock has a senior liquidation preference, this dividend language may need to be revised.



price of such class or series of capital stock (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to such class or series) and (B) the applicable Original Issue Price (as defined below); provided that, if the Corporation declares, pays or sets aside, on the same date, a dividend on shares of more than one class or series of capital stock of the Corporation, the dividend payable to the holders of a series of Preferred Stock pursuant to this sentence of Section 1 shall be calculated based upon the dividend on the class or series of capital stock that would result in the highest dividend for such series of Preferred Stock. The “**Original Issue Price**” shall mean, with respect to the Series A Preferred Stock, \$[insert initial Series A purchase price] per share, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the applicable Preferred Stock. The “**Dividend Amount**” shall mean, with respect to any series of Preferred Stock, [8]% of the Original Issue Price of such series of Preferred Stock.

*[Use the following paragraph if the Term Sheet calls for a specified cumulative dividend, payable if and when declared by the Board, in addition to shared dividends.]*

From and after the date of the issuance of any shares of Preferred Stock, dividends at the rate per annum of \$[\_\_\_\_] per share<sup>13</sup> shall accrue on such shares of Preferred Stock (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the Preferred Stock) (the “**Accruing Dividends**”). Accruing Dividends shall accrue from day to day, whether or not declared, and shall be cumulative; provided, however, that except as set forth in the following sentence of this Section 1 [or in Section 2.1 [and Section 6.1]]<sup>14</sup>, such Accruing Dividends shall be payable only when, as, and if declared by the Board of Directors and, except as provided in Section 2.1 [and Section 6.1], the Corporation shall be under no obligation to pay such Accruing Dividends. The Corporation shall not declare, pay or set aside any dividends on shares of any other class or series of capital stock of the Corporation (other than dividends on shares of Common Stock payable in shares of Common Stock) unless (in addition to the obtaining of any consents required elsewhere in this Certificate of Incorporation) the holders of the Preferred Stock then outstanding shall first receive, or simultaneously receive, a dividend on each outstanding share of Preferred Stock in an amount at least equal to [the greater of][the sum of]<sup>15</sup> (i) the amount of the aggregate Accruing Dividends then accrued on such share of Preferred Stock and not previously paid and (ii) (A) in the case of a dividend on Common Stock or any class or series that is convertible into Common Stock, that dividend per share of the Preferred Stock as would equal the product of (1) the dividend payable on each share of such class or series determined, if applicable, as if all shares of such class or series had been converted into Common Stock and (2) the number of shares of Common Stock issuable upon conversion of a share of such Preferred Stock, in each case

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<sup>13</sup> A cumulative dividend expressed as “\$ \_\_\_\_ per share” will by definition be non-compounding. If a compounding accrued dividend is desired, it should be expressed as a percentage of a “base amount,” with the “base amount” defined as the original purchase price plus the amount of previously accrued dividends (it should also be specified whether this “compounding” of the original purchase price is done on an annual, quarterly, or other basis). As an example: “From and after the date of the issuance of any shares of Preferred Stock, dividends at the rate per annum of [8]% of the Original Issue Price (as defined below) of such share, plus the amount of previously accrued dividends, compounded annually, shall accrue on each share then outstanding (the “**Accruing Dividends**”).”

<sup>14</sup> Insert the bracketed language if the holders of Preferred Stock will receive the benefit of the accruing dividends upon a liquidation event or upon redemption.

<sup>15</sup> The second bracketed alternative may not be sensible with respect to dividends paid on another series of Preferred Stock, particularly one which contains a reciprocal dividend provision, as it may result in an endless series of payments (as any payment with respect to one series would trigger a payment with respect to the other). This provision (and the similar provision in the first alternative dividend paragraph) are likely to be of little practicable import, as most venture capital-backed companies do not have the cash flow to make any dividend payments, and the negative covenants (contained in Section 3.3) prohibit dividend payments without the consent of some percentage of the holders of Preferred Stock.

calculated on the record date for determination of holders entitled to receive such dividend or (B) in the case of a dividend on any class or series that is not convertible into Common Stock, at a rate per share of Preferred Stock determined by (1) dividing the amount of the dividend payable on each share of such class or series of capital stock by the original issuance price of such class or series of capital stock (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to such class or series) and (2) multiplying such fraction by an amount equal to the applicable Original Issue Price (as defined below); provided that if the Corporation declares, pays or sets aside, on the same date, a dividend on shares of more than one class or series of capital stock of the Corporation, the dividend payable to the holders of a series of Preferred Stock pursuant to this sentence of Section 1 shall be calculated based upon the dividend on the class or series of capital stock that would result in the highest dividend for such series of Preferred Stock. The “**Original Issue Price**” shall mean, with respect to the Series A Preferred Stock, \$[*insert initial Series A purchase price*] per share, subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the applicable Preferred Stock.

2. Liquidation, Dissolution or Winding Up; Certain Mergers, Consolidations and Asset Sales.

*[Use the following Sections 2.1 and 2.2 if the term sheet calls for non-participating Preferred Stock.]*

2.1 Preferential Payments to Holders of Preferred Stock<sup>16</sup>. In the event of (a) any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of shares of each series of Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders, and (b) a Deemed Liquidation Event (as defined below), the holders of shares of each series of Preferred Stock then outstanding shall be entitled to be paid out of the consideration payable to stockholders in such Deemed Liquidation Event or out of the Available Proceeds (as defined below), as applicable, on a *pari passu* basis based on their respective Liquidation Amounts (as defined below) and before any payment shall be made to the holders of Common Stock by reason of their ownership thereof, an amount per share of each such series of Preferred Stock equal to the greater of (i) [\_\_\_ times] the applicable Original Issue Price, plus any dividends declared but unpaid thereon,<sup>17</sup> or (ii) such amount per share as would have been payable had all shares of such series of Preferred Stock (and all shares of all other series of Preferred Stock that would receive a larger distribution per share if such series of Preferred Stock were converted into Common Stock) been converted into Common Stock pursuant to Section 4 immediately prior to such liquidation, dissolution, winding up or Deemed Liquidation Event (the amount payable pursuant to this sentence is hereinafter referred to, for each series of Preferred Stock, as applicable, as the “**Liquidation Amount**”).<sup>18</sup> If upon any such liquidation, dissolution or winding

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<sup>16</sup> For simplicity, this model charter provides for *pari passu* preferred stock liquidation. If one or more series of preferred stock has a senior or junior liquidation preference, this language will need to be revised.

<sup>17</sup> If accruing dividends are provided for, the following language would generally be used instead: “the Original Issue Price, plus any Accruing Dividends accrued but unpaid thereon, whether or not declared, together with any other dividends declared but unpaid thereon.”

<sup>18</sup> Where the Corporation has multiple series of Preferred Stock, the calculation of the Liquidation Amounts payable to each series becomes quite complicated. In determining whether the payment to the holders of any particular series of Preferred Stock would be maximized by the conversion of those shares into Common Stock, it is necessary to make an assumption as to which shares of Preferred Stock have converted into Common Stock. The most logical approach is to assume the conversion into Common Stock of all shares of each series of Preferred Stock that would receive a greater per share liquidation payment if converted into Common Stock than if remaining as Preferred Stock, and to provide, as presently drafted in this model charter, that this assumption shall apply in making the calculation required

up of the Corporation or Deemed Liquidation Event, the assets of the Corporation available for distribution to its stockholders shall be insufficient to pay the holders of shares of Preferred Stock the full amount to which they shall be entitled under this Section 2.1, the holders of shares of Preferred Stock shall share ratably in any distribution of the assets available for distribution in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

2.2 Payments to Holders of Common Stock. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, after the payment in full of all Liquidation Amounts required to be paid to the holders of shares of Preferred Stock, the remaining assets of the Corporation available for distribution to its stockholders or, in the case of a Deemed Liquidation Event, the consideration not payable to the holders of shares of Preferred Stock pursuant to Section 2.1 or the remaining Available Proceeds, as the case may be, shall be distributed among the holders of shares of Common Stock, pro rata based on the number of shares of Common Stock held by each such holder.

*[Use the following Sections 2.1 and 2.2 if the term sheet calls for participating Preferred Stock.]*

2.1 Preferential Payments to Holders of Preferred Stock. In the event of (a) any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of shares of each series of Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders, and (b) a Deemed Liquidation Event (as defined below), the holders of shares of each series of Preferred Stock then outstanding shall be entitled to be paid out of the consideration payable to stockholders in such Deemed Liquidation Event or out of the Available Proceeds (as defined below), as applicable, on a *pari passu* basis based on their respective Liquidation Amounts (as defined below) and before any payment shall be made to the holders of Common Stock by reason of their ownership thereof, an amount per share equal to [\_\_\_ times] the applicable Original Issue

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by this sentence. However, determining the amount provided for in clause (ii) of this sentence for any particular series of Preferred Stock requires you to calculate the Liquidation Amount for each other series of Preferred Stock (so you can calculate the amount available for distribution to the holders of Common Stock and the series of Preferred Stock in question); and calculating the Liquidation Amount for each such other series itself involves a determination of whether the original purchase price for such other series of Preferred Stock (plus dividends, if applicable) exceeds the amount payable with respect to such series on an as-converted basis – and this latter amount cannot be calculated without knowing what the Liquidation Amounts are for all other series of Preferred Stock. If the various series of Preferred Stock are not *pari passu*, these calculations become even more difficult.

Some versions of Preferred Stock terms simply state that the liquidation payment to be made to a particular series of Preferred Stock is equal to the original purchase price of such Preferred Stock (plus accrued but unpaid dividends, if applicable) rather than the higher of such amount and the as-converted payment. That alternative formulation is not intended to result in a substantive difference from the approach taken in this form; rather, in that alternative formulation, it is assumed that the holders of a particular series of Preferred Stock would simply convert into Common Stock if the as-converted payment is greater than the original purchase price (plus dividends, if applicable). While such alternative formulation avoids the drafting complexities described in the preceding paragraph, it simply shifts those complexities to the decision each individual holder of Preferred Stock must make at the time of a liquidation event. That is, each holder of Preferred Stock must decide whether it will receive a higher payment if it converts into Common Stock; and such determination would require each holder of Preferred Stock to make an assumption as to whether the other holders of Preferred Stock (both of the same series and of different series) will convert into Common Stock. However, it is sometimes impossible to know at the time of the closing whether conversion is beneficial.

This issue is not applicable to participating Preferred Stock without a cap on the liquidation preference – because participating Preferred Stock entitles its holder to receive both the basic liquidation payment and the as-converted payment, there is no need to determine whether the basic payment or the as-converted payment is greater.

Price, plus any dividends declared but unpaid thereon.<sup>19</sup> If upon any such liquidation, dissolution or winding up of the Corporation or Deemed Liquidation Event, the assets of the Corporation available for distribution to its stockholders shall be insufficient to pay the holders of shares of Preferred Stock the full amount to which they shall be entitled under this Section 2.1, the holders of shares of Preferred Stock shall share ratably in any distribution of the assets available for distribution in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

2.2 Distribution of Remaining Assets. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, after the payment in full of all amounts required to be paid to the holders of shares of Preferred Stock pursuant to Section 2.1, the remaining assets of the Corporation available for distribution to its stockholders or, in the case of a Deemed Liquidation Event, the consideration not payable to the holders of shares of Preferred Stock pursuant to Section 2.1 or the remaining Available Proceeds, as the case may be, shall be distributed among the holders of the shares of Preferred Stock and Common Stock, pro rata based on the number of shares held by each such holder, treating for this purpose all such securities as if they had been converted to Common Stock pursuant to the terms of this Certificate of Incorporation immediately prior to such liquidation, dissolution or winding up of the Corporation.<sup>20</sup> The aggregate amount which a holder of a share of Preferred Stock is entitled to receive under Sections 2.1 and 2.2 is hereinafter referred to as the “**Liquidation Amount**.”

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<sup>19</sup> If accruing dividends are provided for, the following language would generally be used instead: “the Original Issue Price, plus any Accruing Dividends accrued but unpaid thereon, whether or not declared, together with any other dividends declared but unpaid thereon.”

<sup>20</sup> If a cap to the liquidation preference is specified in the term sheet, add the following language at the end of this sentence: “; provided, however, that if the aggregate amount which the holders of Preferred Stock are entitled to receive under Sections 2.1 and 2.2 shall exceed [\$\_\_\_\_\_] per share (subject to appropriate adjustment in the event of a stock split, stock dividend, combination, reclassification, or similar event affecting the Preferred Stock) (the “**Maximum Participation Amount**”), each holder of Preferred Stock shall be entitled to receive upon such liquidation, dissolution or winding up of the Corporation the greater of (i) the Maximum Participation Amount and (ii) the amount such holder would have received if all shares of Preferred Stock had been converted into Common Stock immediately prior to such liquidation, dissolution or winding up of the Corporation.”

## 2.3 Deemed Liquidation Events.<sup>21</sup>

2.3.1 Definition. Each of the following events shall be considered a “**Deemed Liquidation Event**” unless the holders of at least [*specify percentage*]<sup>22,23</sup> of the outstanding shares of Preferred Stock, voting together as a single class on an as-converted to Common Stock basis<sup>24</sup> (the “**Requisite Holders**”), elect otherwise by written notice sent to the Corporation at least 10 days prior to the effective date of any such event:

(a) a merger, consolidation, statutory conversion, transfer of the Corporation<sup>25</sup>, domestication, or continuance<sup>26</sup> in which

(i) the Corporation is a constituent party or

(ii) a subsidiary of the Corporation is a constituent party and the Corporation issues shares of its capital stock pursuant to such merger,

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<sup>21</sup> It is generally inadvisable to insert language that includes a transfer of shares by stockholders as a Deemed Liquidation Event, as such transactions may not be within the control of the Corporation and, in any event, could be inadvertently triggered with unintended consequences. A better practice is to protect against such events through a combination of other measures, including protective provisions regarding the issuance of stock and rights of first refusal over transfers of stock by other stockholders. Counsel should be aware, however, that protective provisions and rights of first refusal may not be sufficient to protect against all eventualities, particularly given that many venture capital investors refuse to subject their own shares to transfer restrictions such as a right of first refusal.

<sup>22</sup> The vote required to waive the treatment of a particular transaction as a Deemed Liquidation Event is generally the same vote that would be required to amend this provision under the terms of Section 3.3. Drafters should take care when defining a voting threshold that includes multiple classes or series of stock and consider the potential of impact of anti-dilution adjustments, which can change the respective voting powers of the different classes or series. Waiver of treatment of a transaction as a Deemed Liquidation Event means that the Preferred Stock has waived its right to be treated in a manner superior to the Common Stock in such Deemed Liquidation Event.

<sup>23</sup> If the Preferred Stock is willing to forgo some but not all of its preference in such Deemed Liquidation Event, the Certificate of Incorporation should be amended prior to the effective time of the Deemed Liquidation Event to fix the agreed upon preference in connection with such Deemed Liquidation Event.

<sup>24</sup> The “as-converted basis” language takes into account any anti-dilution adjustments. If the intention is to set the voting threshold differently, the drafter should take care to make appropriate adjustments to the language, particularly where the Corporation has multiple classes or series of preferred stock.

<sup>25</sup> *\*New October 2025\** This draft has been revised to clarify that “transfer” in this context means a transfer *of the Corporation* and does not mean a transfer of capital stock or other equity securities of the Corporation. See Sections 265, 266 and 390 of the DGCL.

<sup>26</sup> The DGCL was amended effective August 1, 2022 to change the vote required for a statutory conversion of a Delaware corporation, and effective August 1, 2023 to change the vote required for a transfer of a corporation, domestication or continuance of a Delaware corporation from a unanimous vote to a majority vote. Because statutory conversions, transfers of a corporation, domestications and continuances can have the same effect on preferred stockholders as a merger, they have been added as Deemed Liquidation Events. The word “merger” in a protective provision in a Certificate of Incorporation adopted prior to August 1, 2022 will be deemed to apply to statutory conversions, and in a Certificate of Incorporation adopted prior to August 1, 2023 will be deemed to apply to transfers, domestications and continuances. If the Corporation is incorporated in a state whose corporate statute provides for statutory share exchanges (Delaware currently does not), a share exchange or division transaction should also be added to the list of transactions constituting a Deemed Liquidation Event in this Section 2.3.1(a), as well as in Section 2.3.2(a) below.

consolidation, statutory conversion, transfer of the Corporation, domestication, or continuance,

except any such merger, consolidation, statutory conversion, transfer of the Corporation, domestication, or continuance involving the Corporation or a subsidiary in which the shares of capital stock of the Corporation outstanding immediately prior to such merger, consolidation, statutory conversion, transfer of the Corporation, domestication, or continuance continue to represent, or are converted into or exchanged for shares of capital stock or other equity interests that represent, immediately following such merger, consolidation, statutory conversion, transfer of the Corporation, domestication, or continuance, [a majority[, by voting power,]]<sup>27</sup> of the capital stock or other equity interests of (1) the surviving or resulting corporation or entity; or (2) if the surviving or resulting corporation or entity is a wholly owned subsidiary of another corporation or entity immediately following such merger, consolidation, statutory conversion, transfer of the Corporation, domestication, or continuance, the parent corporation or entity of such surviving or resulting corporation or entity; or

(b) (i) the sale, lease, transfer, exclusive license or other disposition, in a single transaction or series of related transactions, by the Corporation or any subsidiary of the Corporation of all or substantially all the assets<sup>28</sup> of the Corporation and its subsidiaries taken as a whole, or (ii) the sale, lease, transfer, exclusive license or other disposition (whether by merger, consolidation, statutory conversion, transfer of the Corporation, domestication, continuance or otherwise, and whether in a single transaction or a series of related transactions) of one or more subsidiaries of the Corporation if substantially all of the assets of the Corporation and its subsidiaries taken as a whole are held by such subsidiary or subsidiaries, except where such sale, lease, transfer, exclusive license or other disposition is to a wholly owned subsidiary of the Corporation.

[Notwithstanding anything in Section 2.3.1 to the contrary, in no event shall the sale and issuance by the Corporation of Preferred Stock in a bona fide equity financing of the Corporation, in and of itself, be a Deemed Liquidation Event.]<sup>29</sup>

### 2.3.2 Effecting a Deemed Liquidation Event.

(a) The Corporation shall not have the power to effect a Deemed Liquidation Event referred to in Section 2.3.1(a)(i) unless the agreement or plan with respect to such transaction, or terms of such transaction (any such agreement, plan or terms, the “**Transaction Document**”), provide that the consideration payable to the stockholders of the Corporation in such Deemed Liquidation Event shall be allocated to the holders of capital stock of the Corporation in accordance with Sections 2.1 and 2.2.

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<sup>27</sup> Basing this provision on voting power permits a transaction in which a majority of the economic capital stock is transferred without triggering a Deemed Liquidation Event.

<sup>28</sup> In certain circumstances the business of the Corporation may be sold in an asset sale with certain material assets, such as intellectual property assets, excluded from the transaction. Depending on the relative value of the excluded assets, the transaction might not rise to the standard of “all or substantially all” of the assets even though the business has been sold as a going concern. In order to avoid uncertainty as to whether this type of transaction constitutes a “Deemed Liquidation Event,” the operative language could be modified to read “all or substantially all of the business or assets of the Corporation”.

<sup>29</sup> *\*New October 2025\** This draft has been revised to clarify that a “pure” equity financing is not a Deemed Liquidation Event (which is the intent of prior versions of this model document, but has resulted in questions over time).

(b) [In the event of a Deemed Liquidation Event referred to in Section 2.3.1(a)(ii) or 2.3.1(b), if the Corporation does not effect a dissolution of the Corporation under the General Corporation Law within 90 days after such Deemed Liquidation Event, then (i) the Corporation shall send a written notice to each holder of Preferred Stock no later than the 90th day after the Deemed Liquidation Event advising such holders of their right (and the requirements to be met to secure such right) pursuant to the terms of the following clause (ii) to require the redemption of such shares of Preferred Stock, and (ii) if the Requisite Holders so request in a written instrument delivered to the Corporation not later than 120 days after such Deemed Liquidation Event, the Corporation shall use the consideration received by the Corporation for such Deemed Liquidation Event (net of any retained liabilities associated with the assets sold or technology licensed, any other expenses reasonably related to such Deemed Liquidation Event or any other expenses incident to the dissolution of the Corporation as provided herein, in each case as determined in good faith by the Board of Directors), together with any other assets of the Corporation available for distribution to its stockholders, all to the extent permitted by Delaware law governing distributions to stockholders (the “**Available Proceeds**”) on the 150th day after such Deemed Liquidation Event (the “**DLE Redemption Date**”), to redeem all outstanding shares of Preferred Stock at a price per share equal to the applicable Liquidation Amount; provided, that if the definitive agreements governing such Deemed Liquidation Event contain contingent indemnification obligations on the part of the Corporation and prohibit the Corporation from distributing all or a portion of the Available Proceeds while such indemnification obligations remain outstanding, then the DLE Redemption Date shall automatically be extended to the date that is ten business days following the date on which such prohibition expires. Notwithstanding the foregoing, in the event of a redemption pursuant to the preceding sentence, if the Available Proceeds are not sufficient to redeem all outstanding shares of Preferred Stock, the Corporation shall redeem a pro rata portion of each holder’s shares of Preferred Stock to the fullest extent of such Available Proceeds, based on the respective amounts which would otherwise be payable in respect of the shares to be redeemed if the Available Proceeds were sufficient to redeem all such shares, and shall redeem the remaining shares as soon as it may lawfully do so under Delaware law governing distributions to stockholders. Prior to the distribution or redemption provided for in this Section 2.3.2(b), the Corporation shall not expend or dissipate the Available Proceeds for any purpose, except to discharge expenses incurred in connection with such Deemed Liquidation Event. In connection with a distribution or redemption provided for in Section 2.3.2, the Corporation shall send written notice of the redemption (the “**Redemption Notice**”) to each holder of record of Preferred Stock. Each Redemption Notice shall state:

- (i) the number of shares of Preferred Stock held by the holder that the Corporation shall redeem on the date specified in the Redemption Notice;
- (ii) the redemption date and the price per share at which the shares of Preferred Stock are being redeemed;
- (iii) for holders of shares in certificated form, that the holder is to surrender to the Corporation, in the manner and at the place designated, his, her or its certificate or certificates representing the shares of Preferred Stock to be redeemed.

If the Redemption Notice shall have been duly given, and if payment is tendered or deposited with an independent payment agent so as to be available therefor in a timely manner, then notwithstanding that any certificates evidencing any of the shares of Preferred Stock so called for redemption shall not have been surrendered, all rights with respect to such shares shall forthwith after the date terminate, except only the right of the holders to receive the payment without interest upon surrender of any such certificate or

certificates therefor.]

2.3.3 Amount Deemed Paid or Distributed. The amount deemed paid or distributed to the holders of capital stock of the Corporation upon any such merger, consolidation, sale, transfer, exclusive license, other disposition or redemption shall be the cash or the value of the property, rights or securities to be paid or distributed to such holders pursuant to such Deemed Liquidation Event. The value of such property, rights or securities shall be determined in good faith by the Board of Directors[, including the approval of [at least one] Preferred Director (as defined herein)].<sup>30</sup>

2.3.4 Allocation of Escrow and Contingent Consideration. In the event of a Deemed Liquidation Event pursuant to Section 2.3.1(a)(i), if any portion of the consideration payable to the stockholders of the Corporation is payable only upon satisfaction of contingencies (the “**Additional Consideration**”), the Transaction Document shall provide that (a) the portion of such consideration that is not Additional Consideration (such portion, the “**Initial Consideration**”) shall be allocated among the holders of capital stock of the Corporation in accordance with Sections 2.1 and 2.2 as if the Initial Consideration were the only consideration payable in connection with such Deemed Liquidation Event; and (b) any Additional Consideration which becomes payable to the stockholders of the Corporation upon satisfaction of such contingencies shall be allocated among the holders of capital stock of the Corporation in accordance with Sections 2.1 and 2.2 after taking into account the previous payment of the Initial Consideration as part of the same transaction. For the purposes of this Section 2.3.4, consideration placed into escrow or retained as a holdback to be available for satisfaction of indemnification or similar obligations in connection with such Deemed Liquidation Event shall be deemed to be [Initial Consideration] [Additional Consideration].<sup>31</sup>

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<sup>30</sup> Investor counsel may seek to add further investor protection by providing that, if a specified percentage of the Series A holders object to the valuation, then the value shall be the fair market value as mutually determined by the Corporation and the specified Series A holders, and if the Corporation and those Series A holders are unable to reach agreement, then fair market value shall be established by an independent appraisal. If such a provision is used, the procedural details (*e.g.*, how appraiser is to be selected, who pays, is the appraisal binding, etc.) should be spelled out.

<sup>31</sup> This section addresses two related issues that may arise when a venture-capital backed company is acquired in a merger: (1) the allocation of earn-out or performance-based consideration, if any and (2) how any deductions from the merger consideration to fund an indemnity escrow or holdback are allocated among the holders of capital stock of the Corporation. This provision is designed to address both issues, with optional language regarding the treatment of escrow.

In transactions involving earn-out or performance-based consideration, one approach is to allocate the closing proceeds in accordance with the liquidation provisions of the Certificate of Incorporation as if such closing proceeds were the only amounts payable in the transaction. If, subsequent to the closing of the transaction, any additional payments are made upon satisfaction of earn-out or performance-based contingencies, the liquidation provisions would be re-applied to ensure that the aggregate consideration is allocated as it would have been as if the closing and post-closing payments were made at a single time. Alternatively, in a transaction where the closing proceeds were less than the aggregate liquidation preference of the Preferred Stock and potential earn-out payments were of sufficient size as to result in full conversion of all Preferred Stock (assuming such Preferred Stock was not fully participating) and all proceeds shared pro rata on an as-converted basis, it has occasionally been argued that in the absence of explicit language to the contrary, the holders of Preferred Stock must choose to either be paid their liquidation preference from the closing proceeds and forgo any as-converted based participation in the earn-out, or convert into Common Stock prior to the closing and thereby waive any liquidation preference in order to preserve the ability to participate in the distribution of earn-out proceeds on an as-converted basis. Given the consensus view that such alternative is inconsistent with the bargain implicit in a preferred security, this Section 2.3.4 makes it clear that the “greater of preference or participation” character of Preferred Stock survives in transaction involving contingent consideration.



### 3. Voting.

3.1 General. On any matter presented to the stockholders of the Corporation for their action or consideration at any meeting of stockholders of the Corporation (or by written consent of stockholders in lieu of a meeting), each holder of outstanding shares of Preferred Stock shall be entitled

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With respect to the allocation of amounts placed in escrow or subject to holdback to be available for the satisfaction of indemnity obligations, Section 2.3.4 contains optional language that permits such amounts to either be treated as “Initial Consideration” and paid with the closing proceeds and withheld on a pro rata basis from all stockholders, or instead treated as “Additional Consideration” (*e.g.*, a separate contingent payment), which results in the holders of Preferred Stock always receiving their liquidation preference, even if some or all of the escrow is forfeited (see further discussion on this point below). If escrowed amounts are to be treated as “Initial Consideration,” the parties may wish to consider whether future earn-out payments in such transaction should take into account whether any portion of such escrow amounts have been paid to the buyer or other third parties prior to the time such earn-out payments are made – *e.g.*, whether the earn-out should “backfill” any escrow dollars applied as liquidation preference but not eventually paid.

From the perspective of the holders of Preferred Stock, the pro rata approach resulting from treating the escrowed amount as “Initial Consideration” may not give them the full benefit of their bargained-for liquidation preference because if not all of the escrow is ultimately released to the corporation’s stockholders, it can result in the Preferred Stock holders receiving less, and the Common Stock holders receiving more, than they would have been entitled to receive if the reduced consideration had been allocated in the manner provided for in the Certificate of Incorporation. The difference between the two approaches is illustrated by the following example:

- 100 shares of Preferred Stock and 100 shares of Common Stock are outstanding;
- the Preferred Stock has a liquidation preference of \$1.00 per share, and is non-participating;
- the purchase price for the Corporation is \$150; and
- \$15 is placed in escrow, which ultimately is returned to the acquirer (such the actual purchase price turns out to be \$135).

If the escrow were allocated among all stockholders pro rata, the initial \$135 payment would be allocated \$90 to the holders of Preferred Stock and \$45 to the holders of Common Stock; and the escrow would be allocated \$10 to the holders of Preferred Stock and \$5 to the holders of Common Stock. If the escrow were later paid to the stockholders, the \$150 purchase price would be allocated as the Certificate of Incorporation provides – \$100 to the Preferred Stock holders and \$50 to the Common holders. On the other hand, if the \$15 escrow were forfeited, the \$135 purchase price would be allocated \$90 to the Preferred Stock holders and \$45 to the Common holders. However, according to the liquidation provisions of the Certificate of Incorporation, a purchase price of 135 should be allocated \$100 to the holders of Preferred Stock and \$35 to the holders of Common Stock. Thus this pro rata allocation of the escrow could provide a smaller payout to the Preferred Stock holders than would be the result if the liquidation provisions of the Certificate of Incorporation were applied to the reduced purchase price (after deducting the forfeited escrow proceeds).

Deeming the escrowed consideration as “Additional Consideration” ensures that the Preferred Stock holders always receive their liquidation preference, even if some or all of the escrow is forfeited – the initial payment of \$135 would be allocated \$100 to the Preferred Stock holders and \$35 to the Common holders, and all \$15 of the escrow would be allocated to the Common holders (with any proceeds released from escrow also going solely to the Common holders). Whether the escrow is forfeited or paid to the holders of Common Stock, the result would be an allocation that is consistent with how the Certificate of Incorporation would allocate whatever the ultimate purchase price turns out to be.

If the Certificate of Incorporation is silent on allocation of escrow and contingent consideration, at the time of an acquisition the Corporation’s Board of Directors will have to approve allocations without the benefit of a Certificate of Incorporation provision stipulating how that should be done. This could create the risk that some constituency will have grounds to complain about the Board’s decision, including a claim that the terms of the merger agreement are inconsistent with the liquidation provisions of the Certificate of Incorporation addressing how merger consideration must be allocated among the various series and classes of stock of the Corporation.

to cast the number of votes equal to the number of whole shares of Common Stock into which the shares of Preferred Stock held by such holder are convertible (as provided in [Section 4](#) below) as of the record date for determining stockholders entitled to vote on such matter. Except as provided by law or by the other provisions of this Certificate of Incorporation, holders of Preferred Stock shall vote together with the holders of Common Stock as a single class and on an as-converted to Common Stock basis.

### 3.2 Election of Directors.

(a) (i) At all times when at least [ ] shares of Preferred Stock remain outstanding (subject to appropriate adjustment in the event of any stock dividend, stock split, combination, or other similar recapitalization with respect to the Preferred Stock), (x) the holders of record of the shares of Preferred Stock, exclusively and voting together as a separate class on an as-converted to Common Stock basis, shall be entitled to elect [ ] director[s] of the Corporation (the “**Preferred Director[s]**”); and (y) the holders of record of the shares of Common Stock, exclusively and voting together as a separate class, shall be entitled to elect [ ] directors of the Corporation; and (ii) the holders of record of the shares of Common Stock and of any other class or series of voting stock (including the Preferred Stock), exclusively and voting together as a single class on an as-converted to Common Stock basis, shall be entitled to elect the balance of the total number of directors of the Corporation (the “**At-Large Directors**”). [Notwithstanding the foregoing, for administrative convenience, the initial Preferred Director[s] may also be appointed by the Board of Directors in connection with the approval of the initial issuance of Preferred Stock without a separate action by the holders of Preferred Stock].<sup>32, 33</sup>

(b) Any director elected as provided in [Section 3.2\(a\)\(i\)](#) or [Section 3.2\(a\)\(ii\)](#) [or appointed by the last sentence of [Section 3.2\(a\)](#)] may be removed without cause by, and only by, the affirmative vote of the holders of a majority of the shares of the class or series of capital stock entitled to elect such director or directors, given either at a special meeting of such stockholders duly called for that purpose or pursuant to a written consent of stockholders.

(c)

(i) If the holders of shares of Preferred Stock or Common Stock, as the case may be, fail to elect a sufficient number of directors to fill all directorships for which they are entitled to elect directors pursuant to [Section 3.2\(a\)](#) [(and to the

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<sup>32</sup> While the size of the Board of Directors could be set forth in the charter, it is typically determined as provided in (or, occasionally, fixed in) the bylaws (permitting the authorized size of the Board to be changed without the need for a charter amendment, but subject to protective provisions). When setting the board size for early-stage companies, it is important to consider the quorum requirements of Section 141(b) of the DGCL which generally provides that a quorum is a majority of the total number of directors, unless the Certificate of Incorporation or bylaws provide that a greater or lesser percentage (but not less than 1/3 of the total number) of directors constitutes a quorum. Thus, if a company is formed and its initial bylaws provide for three directors, but only one director is initially appointed, that director alone would not constitute a quorum and could not take valid board action (other than filling the vacancies) unless the bylaws also provided that 1/3 of the total number of directors constitutes a quorum. Accordingly, it is recommended that the bylaws provide for a quorum to be a majority of then-seated directors or, if greater, 1/3 of the authorized number of directors.

<sup>33</sup> Where a class or series is given the right to elect a director in the Certificate of Incorporation and the language in [Section 3.2\(c\)\(i\)](#) is included, such director may only be properly elected to the Board of Directors by that class or series. See [footnote 34](#).

extent any of such directorships is not otherwise filled by a director appointed in accordance with the last sentence of Section 3.2(a)], then any directorship not so filled shall remain vacant until such time as the holders of the Preferred Stock or Common Stock, as the case may be, fill such directorship in accordance with Section 3.2(a).<sup>34</sup>

- (ii) A vacancy in any At-Large Director seat can be filled by either (A) the vote or written consent in lieu of a meeting of the stockholders entitled to elect the At-Large Directors, or (B) the vote or written consent in lieu of a meeting of [all/a majority of the] remaining director(s) [elected by the stockholders entitled to elect the At-Large Directors].<sup>35</sup>

(d) At any meeting held for the purpose of electing a director, the presence in person or by proxy of the holders of a majority of the outstanding shares of the class or series of capital stock entitled to elect such director shall constitute a quorum for the purpose of electing such director.

(e) For purposes of this Certificate of Incorporation, “**Requisite Directors**” means the Board of Directors [including [a majority of] the Preferred Directors then seated].<sup>36</sup>

3.3 Preferred Stock Protective Provisions. At any time when at least [\_\_\_\_] shares of Preferred Stock [(subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the Preferred Stock)] are outstanding, the Corporation shall not, either directly or indirectly by amendment, merger, consolidation, domestication, transfer of the Corporation, continuance, reorganization, recapitalization, reclassification, waiver, statutory conversion, or otherwise, effect<sup>37</sup> any of the following acts or transactions without (in addition to any other vote required by law or this Certificate of Incorporation) the written consent or affirmative vote of the

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<sup>34</sup> This provision works in conjunction with the Voting Agreement to address issues raised by *FGC Holdings Ltd. v. Teltronics, Inc.*, 2005 WL 2334357 (Del. Ch. Sept. 14, 2005) and is intended to protect parties who have specific designation rights under this model charter by requiring such seats to be filled only by vote of stockholders who are entitled to vote thereon (and then the Voting Agreement governs how bound stockholders vote).

<sup>35</sup> Where a class or series is given the right to elect a director in the Certificate of Incorporation, Delaware law provides that the removal of that director other than for cause must be effected by the vote of the stockholders of the applicable class or series and not by the stockholders generally. Likewise, it is important to replace any such director by either (i) the vote of the stockholders of the applicable class or series or (ii) if the class or series is given the right to elect multiple directors, the remaining director(s) elected by such class or series.

<sup>36</sup> This model provision simplifies (relative to prior models) some of the preferred director votes that have been expanded in this model charter. Drafters may also consider setting up different thresholds for different board-level votes set forth in this model charter.

<sup>37</sup> The preamble to Section 3.3 in this model charter is drafted to be clear that the stockholder consent is required to *effect* the listed acts and that predicate actions, such as prior board approval, do not violate the protective provision.

Requisite Holders[, and any such act or transaction that has not been approved by such consent or vote prior to such act or transaction being effected shall be null and void *ab initio*, and of no force or effect].<sup>38</sup>

3.3.1 liquidate, dissolve or wind-up the business and affairs of the Corporation or effect any Deemed Liquidation Event<sup>39</sup>;

3.3.2 amend, alter or repeal any provision of this Certificate of Incorporation or Bylaws of the Corporation [in a manner that adversely affects the special rights, powers and preferences of the Preferred Stock (or any series thereof)];

3.3.3 [effect any merger, consolidation, reorganization, statutory conversion, transfer of the Corporation, domestication, or continuance (other than a Deemed Liquidation Event) pursuant to which the holders of the Corporation's Preferred Stock immediately prior to such transaction are issued securities in such transaction in lieu of such shares of Preferred Stock that have special rights, powers and preferences that are materially less favorable than the special rights, powers and preferences of such Preferred Stock immediately prior to such transaction];<sup>40</sup>

3.3.4 create<sup>41</sup> any capital stock unless the same ranks junior to [or *pari passu* with] the Preferred Stock with respect to its special rights, powers and preferences;

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<sup>38</sup> The bracketed language is included to address the Delaware Chancery Court's opinion in *Fletcher Int'l, Ltd. v. ION Geophysical Corp.*, 2010 WL 1223782 (Del. Ch. Mar. 24, 2010), where the court declined to unwind promissory notes issued by the defendant corporation in violation of a preferred stock consent right in its charter. Rather than declaring the issuance void and ordering the transaction to be rescinded, the court determined that there was no irreparable harm to the plaintiff because monetary damages would provide it with an adequate remedy under the circumstances, and, in balancing the potential harms to the parties, concluded that the harm to the corporation from voiding the note issuance and potentially causing the insolvency of the corporation exceeded the harm to the investor who could be compensated with money damages. Subsequent cases in Delaware have declined to apply this kind of equitable balancing where the applicable provision indicates the parties' agreement that action taken in violation of such provision will be "null and void *ab initio*". See, e.g. *Southpaw Credit Opportunity Master Fund, L.P., v. Roma Rest. Holdings, Inc.*, 2018 WL 658734 (Del. Ch. Feb. 1, 2018) (declining to consider equitable defenses in finding void *ab initio* a stock transfer in violation of a stockholders agreement that provided transfers effected without a joinder were void *ab initio*) and *Holifield v. XRI Inv. Holdings LLC*, 2023 WL 5761367 (Del. Sept 7, 2023) (finding that use of the word "void" in a limited liability company agreement in respect of certain purported transfers of member interests rendered such transfers "incurably void" such that affirmative defenses did not apply, but noting that DGCL Section 204 and an analogous provision in Delaware's Limited Liability Company Act provide a mechanism for corporations and LLCs to ratify defective or "void" corporate acts ).

<sup>39</sup> This model charter does not include "or consent to any of the foregoing" (which was in the 2020 version of the model charter but removed in 2023) because the "consent to the foregoing" language created ambiguity in situations where board approval is necessary before seeking stockholder approval.

<sup>40</sup> **\*New October 2025\*** If Investors desire to have a block over the Corporation moving to a different jurisdiction, build in a separate protective provision.

<sup>41</sup> If the parties desire a protective provision over the issuance of Convertible Securities the language could read "create any capital stock unless the same ranks junior to [or *pari passu* with] the Preferred Stock with respect to its special rights, powers and preferences, or issue any Convertible Security that may convert into capital stock unless the capital stock potentially issuable upon such conversion would rank junior to [or *pari passu* with] the Preferred Stock with respect to its special rights, powers and preferences."

3.3.5 increase [or decrease] the authorized number of shares of Common Stock<sup>42</sup>, Preferred Stock, or any series thereof;<sup>43</sup>

3.3.6 purchase or redeem (or permit any subsidiary to purchase or redeem) or pay or declare any dividend or make any distribution on, any shares of capital stock of the Corporation other than (i) redemptions of or dividends or distributions on the Preferred Stock as expressly authorized herein, (ii) dividends or other distributions payable on the Common Stock solely in the form of additional shares of Common Stock, (iii) repurchases of stock from former employees, officers, directors, consultants or other persons who performed services for the Corporation or any subsidiary in connection with the cessation of such employment or service at no greater than the original purchase price thereof and (iv) redemptions, dividends or repurchases approved by the Requisite Directors;

3.3.7 create, or hold capital stock in, any subsidiary that is not wholly owned (either directly or through one or more other subsidiaries) by the Corporation (or substantially wholly owned other than de minimis holdings of a second holder as may be required by non-U.S. law), or permit any subsidiary to create, or issue or obligate itself to issue, any shares of any class or series of capital stock, or sell, transfer or otherwise dispose of any capital stock of any direct or indirect subsidiary of the Corporation, or permit any direct or indirect subsidiary to sell, lease, transfer, exclusively license or otherwise dispose (in a single transaction or series of related transactions) of all or substantially all of the assets of such subsidiary; [or]

3.3.8 [increase or decrease the authorized number of directors constituting the Board of Directors, or change the number of votes entitled to be cast by any director or directors on any matter[; or][.]

3.3.9 [unless otherwise approved by the Requisite Directors<sup>44</sup>:

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<sup>42</sup> If there are multiple types of Common Stock, see footnote 4, consider whether the defined term does or should include all of them.

<sup>43</sup> Under Delaware law, absent a specific protective provision, the authorization of another series of Preferred Stock with rights senior or *pari passu* to those of the existing Preferred Stock as to dividends, liquidation and redemption would generally not constitute an amendment that adversely affects the rights, powers and preferences of the existing Preferred Stock. Accordingly, Section 3.3.4 contains additional restrictions specifically dealing with the authorization of senior or *pari passu* stock.

<sup>44</sup> **\*Revised October 2025\*** Inclusion of an exception to the stockholder vote if approval by one or more Preferred Directors is obtained is frequently seen as a compromise between strictly requiring approval of the holders of Preferred Stock (*qua*-stockholders) and simply requiring Board approval. The list of provisions under this Subsection 3.3.9 is customizable to address transactions about which the holders of Preferred Stock have specific concerns, and some or all may be appropriate to include either under this Subsection 3.3.9 or as standalone subsections under Section 3.3, or even moved to or remain in the Investors' Rights Agreement. Many of these were previously in Section 5 of prior versions of the model Investors' Rights Agreement and others were previously individual subsections of Section 3.3 that were moved here into one Subsection 3.3.9 to consolidate all provisions that permit heightened board approval as an alternative to Preferred stockholder approval. Moving the provisions that were previously in the model Investors' Rights Agreement to the model charter makes it easier to compare and move provisions that require the protective stockholder vote versus those that permit the board approval alternative. Please note that consolidation of these provisions into the model charter does not indicate that such provisions cannot be moved to or remain in the Investors' Rights Agreement, but does potentially (i) mitigate some ambiguities about the interplay between Sections 122(18) and 141(d) of the DGCL and (ii) increase the likelihood an injunction/specific enforcement could be obtained in the event of breach.

(a) [unless the aggregate indebtedness of the Corporation and its subsidiaries for borrowed money following such action would not exceed \$[\_\_\_\_\_] /the amount already included in the annual budget approved in accordance with Section 3.3.9(f) and] other than equipment leases, bank lines of credit or trade payables incurred in the ordinary course of business, create, or issue, any debt security, create any lien or security interest (except for purchase money liens or statutory liens of landlords, mechanics, materialmen, workmen, warehousemen and other similar persons arising or incurred in the ordinary course of business), or incur other indebtedness for borrowed money, including but not limited to obligations and contingent obligations under guarantees, or permit any subsidiary to take any such action with respect to any debt security lien, security interest or other indebtedness for borrowed money;]

(b) [(i) create or adopt any equity (or equity-linked) compensation plan; [or (ii) amend any such plan to increase the number of shares authorized for issuance thereunder];]

(c) [unless already included in the annual budget approved in accordance with Section 3.3.9(f), make, or permit any subsidiary to make, any loan or advance to any entity or individual, including, without limitation, any employee or director of the Corporation or any subsidiary, except advances and similar expenditures in the ordinary course of business;]

(d) [guarantee, directly or indirectly, or permit any subsidiary to guarantee, directly or indirectly, any indebtedness except for trade accounts of the Corporation or any subsidiary arising in the ordinary course of business;]

(e) [hire, terminate, or change the compensation of, approve or amend any stock or option awards to, or enter into any non-employment related transaction with, the Chief Executive Officer, any individual reporting directly to the Board of Directors, or executive-level individual reporting directly to the Chief Executive Officer, or any immediate family member of any such individual;]

(f) [approve the annual budget or any [material] amendment to the annual budget];

(g) [approve any equity grant to any employee who holds at least 1% of the capital stock of the Corporation (on an as-converted basis) that (i) vests other than on a four-year schedule with a one-year cliff; (ii) provides for acceleration of vesting; or (iii) is not subject to a right of first refusal in favor of the Corporation;]

(h) [create or modify the composition or members of any committee of the Board of Directors in such a manner as does not include each Preferred Director, other than a Preferred Director excluded from such committee formed for the purpose of avoiding conflicts of interest in which such Preferred Director's inclusion would create such conflict of interest;]

(i) [sell, issue, sponsor, create or distribute, or cause or permit any of its subsidiaries to sell, issue, sponsor, create or distribute, any digital tokens, cryptocurrency or other blockchain-based assets (collectively, “**Tokens**”), including through a pre-sale, initial coin offering, token distribution event or crowdfunding, or through the issuance of any instrument convertible into or exchangeable for Tokens;]

(j) [enter into any commercial contract outside the ordinary course of business involving the payment, contribution, or assignment by the Corporation of money or assets having a value (as determined by the Board of Directors in a manner consistent with the agreements governing such relationship) greater than \$[\_\_\_\_\_] <sup>45</sup>];

(k) [any license or transfer of the Corporation's (or its subsidiaries') intellectual property or assets to a third party in a material transaction or series of related transactions that, viewed in the aggregate, would be material and in connection with which such third party or its affiliates contemporaneously directly engages the services of any of the Corporation's senior executives in their individual capacities (including transactions commonly referred to as acquihires)]; [or]

(l) [enter into a real estate lease having a term longer than, or extend a real estate lease to result in a term longer than, three years, unless [either (i)] the aggregate annual cost to the Corporation is less than \$[\_\_\_\_\_] [or (ii) it is included in an annual budget or any amendment thereto approved in accordance with Section 3.3.9(f)].]

4. Optional Conversion. The holders of the Preferred Stock shall have conversion rights as follows (the “**Conversion Rights**”):

4.1 Right to Convert.

4.1.1 Conversion Ratio. Each share of Preferred Stock shall be convertible, at the option of the holder thereof, at any time, and without the payment of additional consideration by the holder thereof, into such whole number of fully paid and non-assessable shares of Common Stock (calculated as provided in Section 4.2 below), as is determined by dividing the applicable Original Issue Price<sup>46</sup> by the applicable Conversion Price (as defined below) in effect at the time of conversion. The “**Conversion Price**” applicable to the Preferred Stock as of the Original Issue Date shall be equal to \$\_\_\_\_\_ [*insert original purchase price of Series A Preferred Stock*] per share of Series A Preferred Stock. Such initial Conversion Price for a series of Preferred Stock, and the rate at which shares of Preferred Stock may be converted into shares of Common Stock, shall be subject to adjustment as provided in this Section 4. [Notwithstanding the foregoing and notwithstanding Section 4.3.1, the optional right to convert shares of Preferred Stock into shares of Common Stock pursuant to the first sentence of this Section 4.1.1 shall be suspended, and no optional conversion may be effective, from and after the date the Corporation delivers (pursuant to Section 5A.1 below) notice of a Qualified Financing (as defined below) until immediately after the earlier of (x) consummation of the Qualified Financing and the associated Special Mandatory Conversion or (y) termination of the Qualified Financing; provided, however, that the foregoing limitation on the right to optionally convert shares into Common Stock pursuant to this Section 4.1.1 shall not affect the calculation of the number of shares deemed issuable upon conversion of such shares for purposes of (A) voting rights under this Certificate of Incorporation, or (B) determining amounts payable in respect of shares of Preferred Stock in connection with a dissolution, liquidation, or winding up of the Corporation or pursuant to a Deemed Liquidation Event.]<sup>47</sup>

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<sup>45</sup> The dollar value here should reflect the stage/size of the company and its customary agreements.

<sup>46</sup> The effect of using the Original Issue Price is that accruing dividends are not taken into account in a conversion.

<sup>47</sup> If a “pay-to-play” is implemented/contemplated, consider blocking optional conversion during its pendency with language such as this bracketed provision. This is also applicable where the pay-to-play relates to tranches in a financing where later tranches are mandatory. Because the voting rights of the Preferred stock and its rights to proceeds in the event of a liquidation, dissolution, winding up, or Deemed Liquidation Event flow from its optional

4.1.2 Termination of Conversion Rights. In the event of a notice of redemption of any shares of Preferred Stock pursuant to Section 2.3.2(b) [or Section 6.1], the Conversion Rights of the shares designated for redemption shall terminate at 5:00 p.m. [Eastern/Pacific] time (the “**close of business**” for purposes hereof) on the last full day preceding the date fixed for redemption, unless the redemption price is not fully paid on such redemption date, in which case the Conversion Rights for such shares shall continue until such price is paid in full. In the event of a liquidation, dissolution or winding up of the Corporation or a Deemed Liquidation Event, the Conversion Rights shall terminate at the close of business on the last full day preceding the date fixed for the payment of any such amounts distributable on such event to the holders of Preferred Stock; provided that the foregoing termination of Conversion Rights shall not affect the amount(s) otherwise paid or payable in accordance with Section 2.1 to the holders of Preferred Stock pursuant to such liquidation, dissolution or winding up of the Corporation or a Deemed Liquidation Event.

4.2 Number of Shares Issuable Upon Conversion. The number of shares of Common Stock issuable to a holder of Preferred Stock upon conversion of such Preferred Stock shall be the nearest whole share, after aggregating all fractional interests in shares of Common Stock that would otherwise be issuable upon conversion of all shares of that same series of Preferred Stock being converted by such holder (with any fractional interests after such aggregation representing 0.5 or greater of a whole share being entitled to a whole share)<sup>48</sup>. For the avoidance of doubt, no fractional interests in shares of Common Stock shall be created or issuable as a result of the conversion of the Preferred Stock pursuant to Section 4.1.1.

4.3 Mechanics of Conversion.

4.3.1 Notice of Conversion. In order for a holder of Preferred Stock to voluntarily convert shares of Preferred Stock into shares of Common Stock, such holder shall (a) provide written notice to the Corporation at the principal office of the Corporation that such holder elects to convert all or any number of such holder’s shares of Preferred Stock and, if applicable, any event on which such conversion is contingent and (b) if such holder’s shares are certificated, tender to the Corporation at its principal office (1) the certificate or certificates for such shares of Preferred Stock or (2) a stock assignment separate from certificate if such certificate or certificates are electronic (or, if such registered holder alleges that such certificate has been lost, stolen or destroyed, a lost certificate affidavit and agreement reasonably acceptable to the Corporation to indemnify the Corporation against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of such certificate). If required by the Corporation, any certificates surrendered for conversion shall be endorsed or accompanied by a written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or his, her or its attorney duly authorized in writing. [Unless a later time and date is otherwise specified by the holder,] the close of business on the date of receipt by the transfer agent (or by the Corporation if the Corporation serves as its own transfer agent) of such notice and, if applicable, certificates (or lost certificate affidavit and agreement) shall be the time of conversion (the “**Conversion Time**”), and the shares of Common Stock issuable upon conversion of the specified shares shall be deemed to be outstanding of record

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conversion rights under Section 4.1, the last proviso is important to avoid ambiguity over the status of those rights during any period in which optional conversion rights are suspended. Careful attention should be paid to update and use appropriate defined terms that apply in the specific circumstances.

<sup>48</sup> To be consistent with this model charter, a Corporation’s capitalization table management system must match how the charter calculates as-converted shares (for example, some platforms do this on a certificate basis, whereas the default language in this document is on a holder basis), the capitalization table may have to be updated manually to reflect such calculations. The language in Section 4.2 has been revised to clarify that the number of shares issuable upon conversion will be the nearest whole number and no fractional interests will be created.



as of such date. The Corporation shall, as soon as practicable after the Conversion Time (i) issue and deliver to such holder of Preferred Stock, or to his, her or its nominees, a certificate or certificates (whether electronic or physical) for the number of full shares of Common Stock issuable upon such conversion in accordance with the provisions hereof and a certificate for the number (if any) of the shares of Preferred Stock represented by the surrendered certificate that were not converted into Common Stock<sup>49</sup>, and (ii) pay all declared but unpaid dividends on the shares of Preferred Stock converted.

4.3.2 Reservation of Shares. The Corporation shall at all times when the Preferred Stock shall be outstanding, reserve and keep available out of its authorized but unissued capital stock, for the purpose of effecting the conversion of the Preferred Stock, such number of its duly authorized shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Preferred Stock, the Corporation shall take such corporate action as may be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to this Certificate of Incorporation. Before taking any action that would cause an adjustment reducing the Conversion Price for any series of Preferred Stock below the then par value of the shares of Common Stock issuable upon conversion of such series of Preferred Stock, the Corporation will take any corporate action which may, in the opinion of its counsel, be necessary in order that the Corporation may validly and legally issue fully paid and non-assessable shares of Common Stock at such adjusted Conversion Price.

4.3.3 Effect of Conversion. All shares of Preferred Stock which shall have been surrendered for conversion as herein provided shall no longer be deemed to be outstanding and all rights with respect to such shares shall immediately cease and terminate at the Conversion Time, except only the right of the holders thereof to receive shares of Common Stock in exchange therefor and to receive payment of any dividends declared but unpaid thereon.<sup>50</sup>

4.3.4 No Further Adjustment. Upon any such conversion, no adjustment to the Conversion Price shall be made for any declared but unpaid dividends on the Preferred Stock surrendered for conversion or on the Common Stock delivered upon conversion.

4.3.5 Taxes. The Corporation shall pay any and all issue and other similar taxes that may be payable in respect of any issuance or delivery of shares of Common Stock upon conversion of shares of Preferred Stock pursuant to this Section 4. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of shares of Common Stock in a name other than that in which the shares of Preferred Stock so converted

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<sup>49</sup> For uncertificated shares of Common Stock, use the following for (i): “issue and deliver to such holder of Preferred Stock, or to such holder’s nominees, a notice of issuance of uncertificated shares and may, upon written request, issue and deliver a certificate for the number of full shares of Common Stock issuable upon such conversion in accordance with the provisions hereof and, may, if applicable and upon written request, issue and deliver a certificate for the number (if any) of the shares of Preferred Stock represented by any surrendered certificate that were not converted into Common Stock”.

<sup>50</sup> Some investors will insist that, upon conversion, all declared but unpaid dividends (and, if the Preferred Stock is entitled to accruing dividends, all accrued dividends, whether or not declared) be paid in additional shares of Common Stock rather than in cash. Assuming that the Preferred Stock is “preferred stock” for purposes of Section 305 of the Internal Revenue Code, the issuance of additional shares of Common Stock in payment of accrued but unpaid dividends will likely be deemed to be a taxable stock dividend to the extent of the Corporation’s current and accumulated earnings and profits.

were registered, and no such issuance or delivery shall be made unless and until the person or entity requesting such issuance has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid.

4.4 Adjustments to Preferred Stock Conversion Price for Diluting Issues.

4.4.1 Special Definitions. For purposes of this Article Fourth, the following definitions shall apply:

(a) **“Additional Shares of Common Stock”** means all shares of Common Stock<sup>51</sup> issued (or, pursuant to Section 4.4.3 below, deemed to be issued) by the Corporation after the Original Issue Date (as defined below), other than (1) the following shares of Common Stock and (2) shares of Common Stock deemed issued pursuant to the following Options and Convertible Securities (clauses (1) and (2), collectively, **“Exempted Securities”**):

- (i) as to any series of Preferred Stock, shares of Common Stock, Options or Convertible Securities issued as a dividend or distribution on such series of Preferred Stock (including dividends payable in connection with dividends on other classes or series of stock);
- (ii) shares of Common Stock, Options or Convertible Securities issued by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock that is covered by Section 4.5, 4.6, 4.7 or 4.8;
- (iii) [shares of Common Stock, Options or Convertible Securities issued to banks, equipment lessors or other financial institutions, or to real property lessors, pursuant to a debt financing, equipment leasing or real property leasing transaction [approved by the Requisite Directors] [that do not exceed an aggregate of [\_\_\_\_\_] shares of Common Stock (including shares underlying (directly or indirectly) any such Options or Convertible Securities)];]
- (iv) shares of Common Stock or Options issued to employees or directors of, or consultants or advisors to, the Corporation or any of its subsidiaries pursuant to a plan, agreement or arrangement [approved (i) prior to the Original

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<sup>51</sup> If there are multiple types of Common Stock, see footnote 4, consider whether the defined term does or should include all of them.

Issue Date or (ii) by the Requisite Directors];<sup>52</sup>

- (v) shares of Common Stock or Convertible Securities actually issued upon the exercise of Options or shares of Common Stock actually issued upon the conversion or exchange of Convertible Securities, in each case provided such issuance is pursuant to the terms of such Option or Convertible Security;
- (vi) [shares of Common Stock, Options or Convertible Securities issued to suppliers or third party service providers in connection with the provision of goods or services pursuant to transactions [approved by the Requisite Directors] [that do not exceed an aggregate of [\_\_\_\_\_] shares of Common Stock (including shares underlying (directly or indirectly) any such Options or Convertible Securities)];]
- (vii) [shares of Common Stock, Options or Convertible Securities issued as acquisition consideration pursuant to the acquisition of another corporation by the Corporation by merger, purchase of substantially all of the assets or other reorganization or to a joint venture agreement[, provided that such issuances [are approved by the Requisite Directors] [[do not exceed an aggregate of [\_\_\_\_\_] shares of Common Stock (including shares underlying (directly or indirectly) any such Options or Convertible Securities)];] [or]
- (viii) shares of Common Stock issued in connection with a firm underwritten public offering of the Corporation's Common Stock pursuant to an effective registration statement; [or]
- (ix) [shares of Common Stock, Options or Convertible Securities issued in connection with sponsored research, collaboration, technology license, development, OEM, marketing or other similar agreements or strategic partnerships [approved by the Requisite Directors] [that do not exceed an aggregate of [\_\_\_\_\_] shares of Common Stock (including shares underlying (directly or indirectly) any such Options or

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<sup>52</sup> Some investors would prefer to include a hard cap on the number of shares issuable under equity incentive plans that do not trigger anti-dilution adjustments. Stock or options reserved for issuance prior to the Original Issue Date ordinarily should not require special approval.

Convertible Securities)].

(b) **“Convertible Securities”** means any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Common Stock, but excluding Options.

(c) **“Option”** means any rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.

(d) **“Original Issue Date”** means the date on which the first share of Series A<sup>53</sup> Preferred Stock is issued.

4.4.2 No Adjustment of Preferred Stock Conversion Price. No adjustment in the Conversion Price of any series of Preferred Stock shall be made as the result of the issuance or deemed issuance of Additional Shares of Common Stock if the Corporation receives written notice from [the Requisite Holders] [the holders of [a majority] of the then outstanding shares of such series of Preferred Stock], agreeing that no such adjustment shall be made as the result of the issuance or deemed issuance of such Additional Shares of Common Stock.

4.4.3 Deemed Issue of Additional Shares of Common Stock.

(a) If the Corporation at any time or from time to time after the Original Issue Date shall issue any Options or Convertible Securities (excluding Options or Convertible Securities which are themselves Exempted Securities) or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto, assuming the satisfaction of any conditions to exercisability, convertibility or exchangeability but without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date.

(b) If the terms of any Option or Convertible Security, the issuance of which resulted in an adjustment to the Conversion Price of any series of Preferred Stock pursuant to the terms of Section 4.4.4, are revised as a result of an amendment to such terms or any other adjustment pursuant to the provisions of such Option or Convertible Security (but excluding automatic adjustments to such terms pursuant to anti-dilution or similar provisions of such Option or Convertible Security)<sup>54</sup> to provide for either (1) any increase or decrease in the number of shares of Common Stock

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<sup>53</sup> Should tie to the most recent series of Preferred.

<sup>54</sup> The reason for this parenthetical is that an automatic change in another security pursuant to its anti-dilution provisions would cause an automatic adjustment pursuant to this provision. If the adjustment pursuant to this provision then causes another automatic change in the other security, it is possible that the second change in the other security can cause a second change pursuant to this provision, which causes a third change to the other security and then a third adjustment pursuant to this provision, and on and on. This form does not provide for adjustment to the Conversion Price as a result of anti-dilution adjustments to the terms of Options or Convertible Securities, because of the complexity involved in such calculations, and because the dilutive event triggering the adjustment to the terms of the Option or Convertible Security would presumably also trigger an adjustment to the Conversion Price under the terms Section 4.4.4 (thus obviating the need to provide for an adjustment to the Conversion Price as a result of an anti-dilution adjustment to the terms of the Option or Convertible Security).

issuable upon the exercise, conversion and/or exchange of any such Option or Convertible Security or (2) any increase or decrease in the consideration payable to the Corporation upon such exercise, conversion and/or exchange, then, effective upon such increase or decrease becoming effective, the Conversion Price of such series of Preferred Stock computed upon the original issue of such Option or Convertible Security (or upon the occurrence of a record date with respect thereto) shall be readjusted to such Conversion Price for such series of Preferred Stock as would have obtained had such revised terms been in effect upon the original date of issuance of such Option or Convertible Security. Notwithstanding the foregoing, no readjustment pursuant to this Section 4.4.3(b) shall have the effect of increasing the Conversion Price applicable to a series of Preferred Stock to an amount which exceeds the lower of (i) the Conversion Price for such series of Preferred Stock in effect immediately prior to the original adjustment made as a result of the issuance of such Option or Convertible Security, or (ii) the Conversion Price for such series of Preferred Stock that would have resulted from any issuances of Additional Shares of Common Stock (other than deemed issuances of Additional Shares of Common Stock as a result of the issuance of such Option or Convertible Security) between the original adjustment date and such readjustment date.

(c) If the terms of any Option or Convertible Security (excluding Options or Convertible Securities which are themselves Exempted Securities), the issuance of which did not result in an adjustment to the Conversion Price of a series of Preferred Stock pursuant to the terms of Section 4.4.4 (either because the consideration per share (determined pursuant to Section 4.4.5) of the Additional Shares of Common Stock subject thereto was equal to or greater than the applicable Conversion Price then in effect, or because such Option or Convertible Security was issued before the Original Issue Date), are revised after the Original Issue Date as a result of an amendment to such terms or any other adjustment pursuant to the provisions of such Option or Convertible Security (but excluding automatic adjustments to such terms pursuant to anti-dilution or similar provisions of such Option or Convertible Security)<sup>55</sup> to provide for either (1) any increase in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (2) any decrease in the consideration payable to the Corporation upon such exercise, conversion or exchange, then such Option or Convertible Security, as so amended or adjusted, and the Additional Shares of Common Stock subject thereto determined in the manner provided in Section 4.4.3(a) shall be deemed to have been issued effective upon such increase or decrease becoming effective.

(d) Upon the expiration or termination of any unexercised Option or unconverted or unexchanged Convertible Security (or portion thereof) which resulted (either upon its original issuance or upon a revision of its terms) in an adjustment to the Conversion Price of any series of Preferred Stock pursuant to the terms of Section 4.4.4, the Conversion Price of such series of Preferred Stock shall be readjusted to such Conversion Price for such series of Preferred Stock as would have obtained had such Option or Convertible Security (or portion thereof) never been issued.

(e) If the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any Option or Convertible Security, or the consideration payable to the Corporation upon such exercise, conversion and/or exchange, is calculable at the time such Option or Convertible Security is issued or amended but is potentially subject to adjustment based upon subsequent events, any adjustment to the Conversion Price of a series of Preferred Stock provided for in this Section 4.4.3 shall be effected at the time of such issuance or amendment based on such number of shares or amount of consideration without regard to any provisions for subsequent adjustments (and any subsequent adjustments shall be treated as provided in clauses (b) and (c) of this Section 4.4.3). If the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of any Option or Convertible Security, or the consideration payable to the Corporation upon such exercise, conversion

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<sup>55</sup> See footnote 54 for an explanation of this parenthetical.

and/or exchange, cannot be calculated at all at the time such Option or Convertible Security is issued or amended, any adjustment to the Conversion Price of a series of Preferred Stock that would result under the terms of this Section 4.4.3 at the time of such issuance or amendment shall instead be effected at the time such number of shares and/or amount of consideration is first calculable (even if subject to subsequent adjustments), assuming for purposes of calculating such adjustment to the Conversion Price for such series of Preferred Stock that such issuance or amendment took place at the time such calculation can first be made. In the event an Option or Convertible Security contains alternative conversion terms, such as a cap on the valuation of the Corporation at which such conversion will be effected, or circumstances where the Option or Convertible Security may be repaid in lieu of conversion, then the number of shares of Common Stock issuable upon the exercise, conversion and/or exchange of such Option or Convertible Security shall be deemed not calculable until such time as the applicable conversion terms are determined.

*[Use the following Section 4.4.4 if the terms sheet calls for a broad-based weighted average anti-dilution provision]*

4.4.4 Adjustment of Conversion Price Upon Issuance of Additional Shares of Common Stock.<sup>56</sup> In the event the Corporation shall at any time after the Original Issue Date issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 4.4.3), without consideration or for a consideration per share less than the Conversion Price of a series of Preferred Stock in effect immediately prior to such issuance or deemed issuance, then the Conversion Price for such series of Preferred Stock shall be reduced, concurrently with such issue, to a price (calculated to the nearest one-hundredth of a cent) determined in accordance with the following formula:

$$CP_2 = CP_1 * (A + B) / (A + C).$$

For purposes of the foregoing formula, the following definitions shall apply:

(a) “CP<sub>2</sub>” shall mean the Conversion Price of such series of Preferred Stock in effect immediately after such issuance or deemed issuance of Additional Shares of Common Stock;

(b) “CP<sub>1</sub>” shall mean the Conversion Price of such series of Preferred Stock in effect immediately prior to such issuance or deemed issuance of Additional Shares of Common Stock;

(c) “A” shall mean the number of shares of Common Stock outstanding immediately prior to such issuance or deemed issuance of Additional Shares of Common Stock (treating for this purpose as outstanding all shares of Common Stock issuable upon exercise of Options outstanding immediately prior to such issuance or deemed issuance or upon conversion or exchange of

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<sup>56</sup> This Section represents a typical “broad-based weighted average” anti-dilution provision. Broad-based anti-dilution is more founder-friendly than a “narrow-based” anti-dilution formula. Whether an anti-dilution provision is broad or narrow is determined by how broad or narrow is the formula (set forth in clause (c) of this Section) for calculating the number of outstanding shares of Common Stock. An even broader formula would include in that calculation all shares reserved under stock plans, whether or not subject to outstanding options (on the theory that those shares are generally included when translating the “pre-money valuation” agreed between the Corporation and the investors to a per share purchase price for the financing). In contrast, a narrower formula might include in the calculation of outstanding shares only those shares of Common Stock that are actually outstanding (*i.e.*, excluding shares of Common Stock issuable on conversion of options, warrants and, potentially, even the Preferred Stock itself). While narrow-based anti-dilution formulas are more investor-friendly, the most investor-friendly category of anti-dilution protection is a “full ratchet” anti-dilution.

Convertible Securities (including the Preferred Stock) outstanding (assuming exercise of any outstanding Options therefor) immediately prior to such issue);

(d) “B” shall mean the number of shares of Common Stock that would have been issued if such Additional Shares of Common Stock had been issued or deemed issued at a price per share equal to  $CP_1$  (determined by dividing the aggregate consideration received by the Corporation in respect of such issue by  $CP_1$ ); and

(e) “C” shall mean the number of such Additional Shares of Common Stock issued in such transaction.

*[Use the following Section 4.4.4 if the term sheet calls for a full ratchet anti-dilution provision]*

**4.4.4 Adjustment of Conversion Price Upon Issuance of Additional Shares of Common Stock.** In the event the Corporation at any time after the Original Issue Date [and prior to [Date]]<sup>57</sup> issues Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 4.4.3), without consideration or for a consideration per share less than the Conversion Price of a series of Preferred Stock in effect immediately prior to such issuance or deemed issuance, then the Conversion Price of such series of Preferred Stock shall be reduced, concurrently with such issuance or deemed issuance, to the consideration per share received by the Corporation for such issue or deemed issue of the Additional Shares of Common Stock; provided that if such issuance or deemed issuance was without consideration, then the Corporation shall be deemed to have received an aggregate of [\$0.001] of consideration for all such Additional Shares of Common Stock issued or deemed to be issued.

**4.4.5 Determination of Consideration.** For purposes of this Section 4.4, the consideration received by the Corporation for the issuance or deemed issuance of any Additional Shares of Common Stock shall be computed as follows:

(a) Cash and Property. Such consideration shall:

- (i) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Corporation, excluding amounts paid or payable for accrued interest;
- (ii) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Board of Directors; and
- (iii) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Corporation for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (i) and (ii)

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<sup>57</sup> Occasionally, a ratchet antidilution provision such as this model provision is time limited and, after a date certain, broad-based weighted average antidilution applies. If you specify a date certain here, be sure to include appropriate provision for what happens after that date.

above, as determined in good faith by the Board of Directors.

(b) Options and Convertible Securities. The consideration per share received by the Corporation for Additional Shares of Common Stock deemed to have been issued pursuant to Section 4.4.3, relating to Options and Convertible Securities, shall be determined by dividing:

- (i) The total amount, if any, received or receivable by the Corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by
- (ii) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities.

4.4.6 Multiple Closing Dates. In the event the Corporation shall issue on more than one date Additional Shares of Common Stock that are a part of one transaction or a series of related transactions and that would result in an adjustment to the Conversion Price of a series of Preferred Stock pursuant to the terms of Section 4.4.4[, and such issuance dates occur within a period of no more than [180] days from the first such issuance to the final such issuance,] then, upon the final such issuance, the Conversion Price for such series of Preferred Stock shall be readjusted to give effect to all such issuances as if they occurred on the date of the first such issuance (and without giving effect to any additional adjustments as a result of any such subsequent issuances within such period).

4.5 Adjustment for Stock Splits and Combinations.<sup>58</sup> If at any time or from time to time after the Original Issue Date the Corporation shall effect a subdivision of the outstanding Common Stock, the Conversion Price of each series of Preferred Stock in effect immediately before that

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<sup>58</sup> This Section and the Sections that follow do not provide for any adjustment to the Conversion Price in the event of stock splits, etc. affecting the Preferred Stock, because those adjustments are covered by the definition of Original Issue Price, which automatically adjusts the numerator of the conversion ratio.



subdivision shall be proportionately decreased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be increased in proportion to such increase in the aggregate number of shares of Common Stock outstanding. If the Corporation shall at any time or from time to time after the Original Issue Date combine the outstanding shares of Common Stock, the Conversion Price of each series of Preferred Stock in effect immediately before the combination shall be proportionately increased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be decreased in proportion to such decrease in the aggregate number of shares of Common Stock outstanding. Any adjustment under this Section 4.5 shall become effective at the close of business on the date the subdivision or combination becomes effective.

4.6 Adjustment for Certain Dividends and Distributions. If at any time or from time to time after the Original Issue Date the Corporation shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable on the Common Stock in additional shares of Common Stock, then and in each such event the Conversion Price of each series of Preferred Stock in effect immediately before such event shall be decreased as of the time of such issuance or, if such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Conversion Price of each such series of Preferred Stock then in effect by a fraction:

(1) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(2) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution.

Notwithstanding the foregoing, (a) if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price of each series of Preferred Stock shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price of each series of Preferred Stock shall be adjusted pursuant to this Section 4.6 as of the time of actual payment of such dividends or distributions; and (b) no such adjustment shall be made if the holders of such series of Preferred Stock simultaneously receive a dividend or other distribution of shares of Common Stock in a number equal to the number of shares of Common Stock as they would have received if all outstanding shares of such series of Preferred Stock had been converted into Common Stock on the date of such event.

4.7 Adjustments for Other Dividends and Distributions. If at any time or from time to time after the Original Issue Date the Corporation shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Corporation (other than a distribution of shares of Common Stock in respect of outstanding shares of Common Stock) or in other property and the provisions of Section 1 do not apply to such dividend or distribution, then and in each such event the holders of Preferred Stock shall receive, simultaneously with the distribution to the holders of Common Stock, a dividend or other distribution of such securities or other property in an amount equal to the amount of such securities or other property as they would have

received if all outstanding shares of Preferred Stock had been converted into Common Stock on the date of such event.<sup>59</sup>

4.8 Adjustment for Merger or Reorganization, etc. Subject to the provisions of Section 2.3, if there shall occur any reorganization, recapitalization, reclassification, consolidation or merger involving the Corporation in which the Common Stock (but not the Preferred Stock) is converted into or exchanged for securities, cash or other property (other than a transaction covered by Sections 4.4, 4.6 or 4.7), then, following any such reorganization, recapitalization, reclassification, consolidation or merger, each share of Preferred Stock shall thereafter be convertible in lieu of the Common Stock into which it was convertible prior to such event into the kind and amount of securities, cash or other property which a holder of the number of shares of Common Stock of the Corporation issuable upon conversion of one share of such Preferred Stock immediately prior to such reorganization, recapitalization, reclassification, consolidation or merger would have been entitled to receive pursuant to such transaction; and, in such case, appropriate adjustment (as determined in good faith by the Board of Directors) shall be made in the application of the provisions in this Section 4 with respect to the rights and interests thereafter of the holders of the Preferred Stock, to the end that the provisions set forth in this Section 4.8 (including provisions with respect to changes in and other adjustments of the Conversion Price of each series of Preferred Stock) shall thereafter be applicable, as nearly as reasonably may be, in relation to any securities or other property thereafter deliverable upon the conversion of the Preferred Stock.<sup>60</sup>

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<sup>59</sup> Alternative provision: add the following after “in each such event” in place of the current text – “provision shall be made so that the holders of the Preferred Stock shall receive upon conversion thereof, in addition to the number of shares of Common Stock receivable thereupon, the kind and amount of securities of the Corporation, cash or other property which they would have been entitled to receive had the Preferred Stock been converted into Common Stock on the date of such event and had they thereafter, during the period from the date of such event to and including the conversion date, retained such securities receivable by them as aforesaid during such period, giving application to all adjustments called for during such period under this paragraph with respect to the rights of the holders of the Preferred Stock; provided, however, that no such provision shall be made if the holders of Preferred Stock receive, simultaneously with the distribution to the holders of Common Stock, a dividend or other distribution of such securities, cash or other property in an amount equal to the amount of such securities, cash or other property as they would have received if all outstanding shares of Preferred Stock had been converted into Common Stock on the date of such event.”

<sup>60</sup> In several Delaware cases involving mergers that were *not* treated as a liquidation under the Certificate of Incorporation, the Court of Chancery construed anti-destruction language of the type found in Section 4.8 as capping the value of the Preferred Stock in an appraisal proceeding because the conversion rights of the preferred were the only contractual rights of the preferred stock implicated by the merger in question and thus were the only contractual basis to distinguish the appraisal value of the preferred stock from that of the common stock in the merger in question. See *In re Appraisal of Metromedia Int’l Grp., Inc.*, 971 A.2d 893 (Del. Ch. 2009). This circumstance only comes up in a situation where the merger in question is not treated as a liquidation event under the charter but an investor nonetheless seeks to pursue appraisal rights in such merger as a cash exit from its investment. In an appraisal, the Preferred Stock and Common Stock will be treated the same absent express language in the charter defining the rights of the preferred stock. Anti-destruction provisions such as those above focus on the conversion rights of the Preferred Stock. An appraisal, by contrast, could theoretically account for the liquidation, dividend, redemption and other preferences of the Preferred Stock; however, absent clear language indicating how these preferences are to be taken into account in a merger, courts in Delaware have considered the possibility of such payments to be speculative and not part of the going concern value of the Preferred Stock. In this model charter many mergers are treated as liquidations, which is the best way to address this issue. In the case of a merger that does not trigger payment of the liquidation preference, investors should focus on what mergers will not be treated as liquidations and consider whether the types of mergers which are treated as liquidations should be expanded or whether other provision should be made (*e.g.*, redemption, dividend acceleration) to capture the preferences of the Preferred Stock in a merger which is not treated as a liquidation under this model charter.

4.9 Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price of a series of Preferred Stock pursuant to this Section 4, the Corporation at its expense shall, as promptly as reasonably practicable but in any event not later than ten days thereafter, compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of such series of Preferred Stock a certificate setting forth such adjustment or readjustment (including the kind and amount of securities, cash or other property into which such series of Preferred Stock is convertible) and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, as promptly as reasonably practicable after the written request at any time of any holder of Preferred Stock (but in any event not later than [10] days thereafter), furnish or cause to be furnished to such holder a certificate setting forth (i) the Conversion Price then in effect for each series of Preferred Stock held by such holder, and (ii) the number of shares of Common Stock and the amount, if any, of other securities, cash or property which then would be received upon the conversion of each such series of Preferred Stock.

4.10 Notice of Record Date. In the event:

(a) the Corporation shall take a record of the holders of its Common Stock (or other capital stock or securities at the time issuable upon conversion of the Preferred Stock) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of capital stock of any class or series or any other securities, or to receive any other security; or

(b) of any capital reorganization of the Corporation, any reclassification of the Common Stock of the Corporation, or any Deemed Liquidation Event; or

(c) of the voluntary or involuntary dissolution, liquidation or winding-up of the Corporation,

then, and in each such case, the Corporation will send or cause to be sent to the holders of the Preferred Stock a notice specifying, as the case may be, (i) the record date for such dividend, distribution or right, and the amount and character of such dividend, distribution or right, or (ii) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is proposed to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other capital stock or securities at the time issuable upon the conversion of the Preferred Stock) shall be entitled to exchange their shares of Common Stock (or such other capital stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up, and the amount per share and character of such exchange applicable to the Preferred Stock and the Common Stock. Such notice shall be sent at least [10] days prior to the record date or effective date for the event specified in such notice.

## 5. Mandatory Conversion.

5.1 Trigger Events. All outstanding shares of Preferred Stock shall automatically be converted into shares of Common Stock, at the then effective conversion rate as calculated pursuant to Sections 4.1.1 and 4.2, upon the earliest to occur of (the time of such conversion is referred to herein as the “**Mandatory Conversion Time**”):

(a) [(i)] immediately prior to the closing of the sale of shares of Common Stock to the public [at a price of at least \$[\_\_\_\_\_] per share (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to

the Common Stock)], in a firm-commitment underwritten<sup>61</sup> public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, resulting in at least \$[\_\_\_\_\_] of [gross] proceeds[, net of the underwriting discount and commissions,] to the Corporation and in connection with such offering the shares of Common Stock are listed for trading on the Nasdaq Stock Market, the New York Stock Exchange or another exchange or marketplace approved by the [Requisite Directors] (a “**Qualified IPO**”);

[(ii) immediately prior to the effectiveness of the registration statement in connection with the initial listing of the Common Stock (or other equity securities of the Corporation) on the Nasdaq Stock Market, New York Stock Exchange or another exchange or marketplace approved by the [Requisite Directors] by means of an effective registration statement filed by the Corporation with the Securities and Exchange Commission, without a related underwritten offering of such Common Stock (or other equity securities)[, for which the Board of Directors, in its sole discretion, determines that the Corporation is expected to have a market capitalization equal to or greater than \$[\_\_\_\_\_] <sup>62</sup> at any time on the first day of trading] (a “**Qualified Direct Listing**”);]<sup>63</sup> and

(b) the date and time, or upon the occurrence of an event, specified by vote or written consent of the Requisite Holders. <sup>64</sup>

5.2 Procedural Requirements. All holders of record of shares of Preferred Stock (or the applicable series thereof) shall be sent written notice of the Mandatory Conversion Time and the place designated for mandatory conversion of all such shares of Preferred Stock pursuant to this Section 5. Such notice need not be sent in advance of the occurrence of the Mandatory Conversion Time. Upon receipt of such notice, each holder of shares of Preferred Stock being converted that holds such shares of Preferred Stock in certificated form shall surrender his, her or its certificate or certificates for all such shares (or, if such holder alleges that such certificate has been lost, stolen or destroyed, a lost certificate affidavit and agreement reasonably acceptable to the Corporation to indemnify the Corporation against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of such certificate) to the Corporation at the place designated in such notice. If so required by the Corporation, any certificates surrendered for conversion shall be endorsed or accompanied by written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or by his, her or its attorney duly authorized in writing. All rights with respect to the Preferred Stock converted

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<sup>61</sup> This would not include the creation of a public trading market for the Corporation’s shares by direct listing, but that Requisite Holders have the ability to consent to conversion in that instance.

<sup>62</sup> In the context of a Series A financing, this value can be set as an amount equal to three to five times the post-money valuation of the Corporation in the financing, which would be equivalent to setting the minimum price per share for the Qualified IPO to be three to five times the Series A purchase price.

<sup>63</sup> There have been some requests to include sample language for direct listings in this model chart, so the bracketed proposed language has been included.

<sup>64</sup> As with the vote required to waive a Deemed Liquidation Event, see footnote 22, where there are multiple series of Preferred Stock, investors should give consideration to the vote required to trigger a mandatory conversion. See *Greenmont Cap. Partners I, LP v. Mary’s Gone Crackers, Inc.*, 2012 WL 4479999 (Del. Ch. Sept. 28, 2012) in which plaintiff, whose series of preferred stock did *not* have a blocking vote on mandatory conversion, unsuccessfully argued that its consent right on actions that would “alter or change” its series rights prevented the majority of preferred holders from converting all preferred stock to common stock. See also *Alta Berkeley VI C.V. v. Omneon, Inc.*, 41 A.3d 381 (Del. 2012) in which plaintiff, who did *not* have a blocking vote on mandatory conversion, unsuccessfully argued that it was entitled to its liquidation preference (rather than its Common Stock payout) where its preferred stock was converted to common stock prior to a liquidation event.

pursuant to Section 5.1, including the rights, if any, to receive notices and vote (other than as a holder of Common Stock), will terminate at the Mandatory Conversion Time (notwithstanding the failure of the holder or holders thereof to surrender any certificates at or prior to such time), except only the rights of the holders thereof, upon surrender of any certificate or certificates of such holders (or lost certificate affidavit and agreement) therefor, to receive the items provided for in the next sentence of this Section 5.2. As soon as practicable after the Mandatory Conversion Time and, if applicable, the surrender of any certificate or certificates (or lost certificate affidavit and agreement) for Preferred Stock, the Corporation shall (a) issue and deliver to such holder, or to his, her or its nominees, a certificate or certificates for the number of full shares of Common Stock issuable on such conversion in accordance with the provisions hereof or issue and deliver to such holder, or to his, her or its nominees, a notice of issuance of uncertificated shares and may, upon written request, issue and deliver a certificate for the number of full shares of Common Stock issuable upon such conversion in accordance with the provisions hereof; and (b) pay any declared but unpaid dividends on the shares of Preferred Stock converted.

*[Use the following Section 5A if the Term Sheet calls for a pay-to-play provision where the penalty is conversion into Common Stock.]*<sup>65</sup>

5A. Special Mandatory Conversion.<sup>66, 67</sup>

5A.1. Trigger Event. In the event that any holder of shares of Preferred Stock does not participate in a Qualified Financing (as defined below) by purchasing in the aggregate, in such Qualified Financing and within the time period specified by the Corporation (provided that, the Corporation has sent to each holder of Preferred Stock at least 10<sup>68</sup> days written notice of, and the opportunity to purchase its Pro Rata Amount (as defined below) of, the Qualified Financing), such holder's Pro Rata Amount, [then each share] [then the Applicable Portion (as defined below) of the shares] of Preferred Stock held by such holder shall automatically, and without any further action on the part of such holder, be converted into shares of Common Stock at the applicable Conversion Price in effect immediately prior to the consummation of such Qualified Financing, effective upon, subject to, and concurrently with, the consummation of the Qualified Financing. For purposes of determining the number of shares of Preferred Stock owned by a holder, and for determining the number of Offered Securities (as defined below) a holder of Preferred Stock has purchased in a Qualified Financing, all shares of Preferred Stock held by Affiliates (as defined below) of such holder shall be aggregated with such holder's shares and all Offered Securities purchased by Affiliates of such holder shall be aggregated with the Offered Securities purchased by such holder (provided that no shares or securities shall be attributed to more than one entity or person within any

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<sup>65</sup> It is not uncommon for the conversion rate to be punitive such that each share of Preferred Stock is converted into a lesser number of shares of Common Stock. In these situations, Section 5A.1 needs to be modified accordingly. In order to avoid the punitive conversion, Preferred Stockholders may have an incentive to voluntarily convert their Preferred Stock on a 1:1 basis prior to the automatic Special Mandatory Conversion. In order to avoid this outcome, consider prohibiting Section 4 optional conversion during the pendency of any Special Mandatory Conversion; if only tied to milestones/tranching applicable to Purchasers under the Stock Purchase Agreement consider including a covenant there as well.

<sup>66</sup> This provision has been carefully crafted to help ensure enforceability. Extra caution should be taken where modifications are made.

<sup>67</sup> **\*New October 2025\*** If the Stock Purchase Agreement contains tranching with a pay-to-play penalty for failure to fund a later tranche, carefully tailor the defined terms and mechanics herein to align with the agreed provisions in the Stock Purchase Agreement.

<sup>68</sup> Parties can consider harmonizing with the notice period for rights of first offer in Section 4 of the Investors' Rights Agreement.

such group of affiliated entities or persons). Such conversion is referred to as a “**Special Mandatory Conversion**.”<sup>69</sup>

5A.2. Procedural Requirements. Upon a Special Mandatory Conversion, each holder of shares of Preferred Stock converted pursuant to Section 5A.1 shall be sent written notice of such Special Mandatory Conversion and the place designated for mandatory conversion of all such shares of Preferred Stock pursuant to this Section 5A. Upon receipt of such notice, each holder of such shares of Preferred Stock in certificated form shall surrender his, her or its certificate or certificates for all such shares (or, if such holder alleges that any such certificate has been lost, stolen or destroyed, a lost certificate affidavit and agreement reasonably acceptable to the Corporation to indemnify the Corporation against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of such certificate) to the Corporation at the place designated in such notice. If so required by the Corporation, any certificates surrendered for conversion shall be endorsed or accompanied by written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or by his, her or its attorney duly authorized in writing. All rights with respect to the Preferred Stock converted pursuant to Section 5A.1, including the rights, if any, to receive notices and vote (other than as a holder of Common Stock), will terminate at the time of the Special Mandatory Conversion (notwithstanding the failure of the holder or holders thereof to surrender any certificates for such shares at or prior to such time), except only the rights of the holders thereof, upon surrender of any certificate or certificates of such holders therefor (or lost certificate affidavit and agreement), to receive the items provided for in the next sentence of this Section 5A.2. As soon as practicable after the Special Mandatory Conversion and, if applicable, the surrender of any certificate or certificates (or lost certificate affidavit and agreement) for Preferred Stock so converted, the Corporation shall (a) [issue and deliver to such holder, or to his, her or its nominees, a certificate or certificates for the number of full shares of Common Stock issuable on such conversion in accordance with the provisions hereof]<sup>70</sup> and (b) pay any declared but unpaid dividends on the shares of Preferred Stock converted [and (c) a new certificate for the number of shares, if any, of Preferred Stock represented by such surrendered certificate and not converted pursuant to Section 5A.1].<sup>71 72</sup>

5A.3. Definitions. For purposes of this Section 5A, the following definitions shall apply:

5A.3.1 “**Affiliate**” shall mean, with respect to any holder of shares of Preferred Stock, any person, entity or firm which, directly or indirectly, controls, is controlled by or is under common control with such holder, including, without limitation, any entity of which the holder is a partner or member, any partner, officer, director, member or employee of such holder and any venture capital fund or other investment fund now or hereafter existing of which the holder is a partner or member which is controlled by or under common control with one or more general partners, managing members or investment advisors of such holder or shares the same management company or investment advisor with

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<sup>69</sup> Careful consideration must be given to whether shares of Preferred Stock converted upon a Special Mandatory Conversion should lose the contractual rights provided under the various ancillary agreements typically involved in a Preferred Stock financing (*e.g.*, registration rights, pre-emptive rights, etc.).

<sup>70</sup> For uncertificated shares of Common Stock, use the following for (a): “issue and deliver to such holder, or to his, her or its nominees, a notice of issuance of uncertificated shares and may, upon written request, issue and deliver a certificate for the number of full shares of Common Stock issuable upon such conversion in accordance with the provisions hereof”.

<sup>71</sup> Applicable only if proportional conversion is provided for by the Certificate of Incorporation.

<sup>72</sup> For uncertificated shares of Common Stock, use the following for (c): “may, if applicable and upon written request, issue and deliver a new certificate for the number of shares, if any, of Preferred Stock represented by such surrendered shares and not converted pursuant to Section 5A.1”.

such holder.

5A.3.2 [“**Applicable Portion**” shall mean, with respect to any holder of shares of Preferred Stock, a number of shares of Preferred Stock calculated by multiplying the aggregate number of shares of Preferred Stock held by such holder immediately prior to a Qualified Financing by a fraction, the numerator of which is equal to the amount, if positive, by which such holder’s Pro Rata Amount exceeds the number of Offered Securities actually purchased by such holder in such Qualified Financing, and the denominator of which is equal to such holder’s Pro Rata Amount.]<sup>73</sup>

5A.3.3 “**Offered Securities**” shall mean the equity securities of the Corporation set aside by the Board of Directors for purchase by holders of outstanding shares of Preferred Stock in connection with a Qualified Financing, and offered to such holders.

5A.3.4 “**Pro Rata Amount**” shall mean, with respect to any holder of Preferred Stock, the lesser of (a) a number of Offered Securities calculated by multiplying the aggregate number of Offered Securities by a fraction, the numerator of which is equal to [the number of shares of Preferred Stock owned by such holder, and the denominator of which is equal to the aggregate number of outstanding shares of Preferred Stock],<sup>74</sup> or (b) the maximum number of Offered Securities that such holder is permitted by the Corporation to purchase in such Qualified Financing, after giving effect to any cutbacks or limitations established by the Board of Directors and applied on a pro rata basis to all holders of Preferred Stock.

5A.3.5 “**Qualified Financing**” shall mean any transaction involving the issuance or sale of Additional Shares of Common Stock after the Original Issue Date [that would result in at least \$\_\_\_\_\_ in gross proceeds to the Corporation, [including/excluding] proceeds previously received by Corporation for debt that is being cancelled or converted in connection with such issuance] [or result in the reduction of the Conversion Price of any series of Preferred Stock pursuant to the terms of this Certificate of Incorporation (without giving effect to the operation of Section 4.4.2)], unless the [Requisite Holders] elect, by written notice sent to the Corporation at least [\_\_\_] days prior to the consummation of the Qualified Financing, that such transaction not be treated as a Qualified Financing for purposes of this Section 5A.

6. Redemption. [Other than as set forth in Section 2.3.2(b), the Preferred Stock is not redeemable at the option of the holder or the Corporation.]<sup>75,76</sup>

6.1 [General]. Unless prohibited by Delaware law governing distributions to stockholders, shares of Preferred Stock shall be redeemed by the Corporation at a price per share of such

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<sup>73</sup> Applicable only if proportional conversion is provided for by the Certificate of Incorporation.

<sup>74</sup> Alternative: “the number of shares of outstanding Common Stock owned by such holder, and the denominator of which is equal to the aggregate number of outstanding shares of Common Stock (for the purpose of this definition, treating all shares of Common Stock issuable upon exercise of Options outstanding immediately prior to such Qualified Financing or upon conversion of Convertible Securities outstanding (assuming exercise of any outstanding Options therefor) immediately prior to such Qualified Financing as outstanding).”

<sup>75</sup> Redemption provisions are uncommon in early-stage financings. If there are no redemption rights, use the first bracketed alternative, not the detailed redemption provisions in 6-1-6.5.

<sup>76</sup> In the wake of the Delaware Chancery Court’s opinion in *In re Trados Inc. S’holder Litig.*, 2009 WL 2225958 (Del. Ch. Jul. 24, 2009), investors may be forgoing a substantial protection/benefit if they do not have the right to put their shares back to the Corporation at a time when they may wish to seek the sale of the Corporation because the board would not be able to use compliance with the Corporation’s contractual redemption obligation to justify the fiduciary decision to sell the Corporation.

Preferred Stock equal to [the greater of (A)][the applicable Original Issue Price, plus all declared but unpaid dividends thereon]<sup>77</sup>[and (B) the Fair Market Value (determined in the manner set forth below) of such share of Preferred Stock as of the date of the Corporation's receipt of the Redemption Request] (the "**Redemption Price**"),<sup>78</sup> in three annual installments commencing not more than 60 days after receipt by the Corporation at any time on or after [\_\_\_\_\_] from the Requisite Holders of written notice requesting redemption of all shares of Preferred Stock<sup>79</sup> (the "**Redemption Request**").<sup>80</sup> Upon receipt of a Redemption Request, the Corporation shall apply all of its assets to any such redemption, and to no other corporate purpose, except to the extent prohibited by Delaware law governing distributions to stockholders.<sup>81</sup> [For purposes of this Section 6.1, the Fair Market Value of a single share of Preferred Stock

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<sup>77</sup> Replace with the following if accruing dividends are selected: "the Original Issue Price per share, plus any Accruing Dividends accrued but unpaid thereon, whether or not declared, together with any other dividends declared but unpaid thereon."

<sup>78</sup> Redemption prices are sometimes fixed at the greater of the Original Issue Price (plus dividends, if applicable) and the fair market value of the Preferred Stock on the date of the Redemption Notice or the date of redemption. When structuring redeemable Preferred Stock, consideration should be given to Section 305(c) of the Internal Revenue Code. Section 305(c) provides that, in certain circumstances, redemption premiums on Preferred Stock are treated for tax purposes in the same manner as original issue discount on bonds. That is, redemption premiums are generally treated as being distributed to the holders of Preferred Stock over the period that the Preferred Stock is outstanding (the "Constructive Distribution Rule"). Distribution amounts for tax periods prior to redemption are determined by applying the yield to maturity (determined as the discount rate that, when used to compute the present value of the redemption price, produces an amount equal to the issue price of the Preferred Stock) to the issue price plus previously accrued amounts. If Preferred Stock is subject to either an automatic redemption or redemption at the request of the Preferred Stockholders, the only exception to the Constructive Distribution Rule is for a redemption premium that is de minimis in amount (the "De Minimis Exception"). The De Minimis Exception applies where the amount by which the redemption price at maturity exceeds the issue price is less than 0.25% of the redemption price multiplied by the number of complete years to maturity.

The Constructive Distribution Rule only applies to stock that is treated as "preferred stock" for tax purposes. Applicable Treasury Regulations under Code Section 305 indicate that a class of stock will be treated as "preferred stock" only if it has limited rights to participate in the growth of the issuer (as determined without regard to any conversion right inherent in the stock). Thus, Preferred Stock with unlimited rights to participate (a) in dividend distributions and (b) upon liquidation in excess of any stated preference (all as determined without regard to any right to convert such stock into Common Stock) will allow holders of such Preferred Stock to assert that their stock is not "preferred stock" for tax purposes. Note that even "nonparticipating" Preferred Stock can be structured in this manner by providing (as does this form) that upon liquidation of the Corporation the Preferred Stock will receive the greater of (i) its liquidation preference or (ii) the amount the holders of such Preferred Stock would receive if the proceeds were distributed to holders based on the number of shares of Common Stock into which the Preferred Stock could then be converted.

<sup>79</sup> The redemption rights in this model charter assume the Preferred Stock is all *pari passu*. If there are different orders of priority, revise accordingly to account for the same.

<sup>80</sup> The Corporation's accountants may take the position that, because the holders of Preferred Stock have the right to force a redemption, the Preferred Stock should be reflected above the stockholders' equity section of the Corporation's balance sheet, as opposed to in the stockholders' equity section of the balance sheet. If so, it is not uncommon for a Corporation to have negative stockholders' equity. In addition, if the Preferred Stock is redeemable at the greater of the original purchase price and the then current fair market value, this might cause the Corporation to have to "mark to market" the redeemable Preferred Stock each quarter, which could cause significant practical and accounting complexities for the Corporation. The Corporation may want to consult with its accountants about this.

<sup>81</sup> This sentence has been added in response to the Delaware Chancery Court's opinion in *SV Inv. Partners, LLC v. ThoughtWorks, Inc.*, 7 A.3d 973 (Del. Ch. 2010) (see footnote 84), and is intended to require the corporation to use all of its assets (other than those required to pay its debts as they come due and to continue as a going concern under applicable Delaware law) to redeem the Preferred Stock. Because in light of *TCV VI, L.P. v. TradingScreen Inc.*, 2015



shall be the value of a single share of Preferred Stock as mutually agreed upon by the Corporation and the holders of a majority of the shares of Preferred Stock then outstanding, and, in the event that they are unable to reach agreement, by a third-party appraiser agreed to by the Corporation and the holders of a majority of the shares of Preferred Stock then outstanding.]<sup>82</sup> The date of each such installment provided in the Redemption Notice (as defined below) shall be referred to as a “**Redemption Date**.” On each Redemption Date, the Corporation shall redeem, on a pro rata basis in accordance with the number of shares of Preferred Stock owned by each holder, that number of outstanding shares of Preferred Stock determined by dividing (i) the total number of shares of Preferred Stock outstanding immediately prior to such Redemption Date by (ii) the number of remaining Redemption Dates (including the Redemption Date to which such calculation applies)[; provided, however, that Excluded Shares (as such term is defined in Section 6.2) shall not be redeemed and shall be excluded from the calculations set forth in this sentence].<sup>83</sup> If on any Redemption Date Delaware law governing distributions to stockholders prevents the Corporation from redeeming all shares of [the series of] Preferred Stock to be redeemed, the Corporation shall ratably redeem the maximum number of shares that it may redeem consistent with such law, and shall redeem the remaining shares as soon as it may lawfully do so under such law.<sup>84</sup>

6.2 Redemption Notice. The Corporation shall send written notice of the mandatory redemption (the “**Redemption Notice**”) to each holder of record of Preferred Stock not less than 40 days prior to each Redemption Date. Each Redemption Notice shall state:

- (a) the number of shares of Preferred Stock held by the holder that the Corporation shall redeem on the Redemption Date specified in the Redemption Notice;
- (b) the Redemption Date and the Redemption Price;
- (c) the date upon which the holder’s right to convert such shares terminates (as determined in accordance with Section 4.1); and

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WL 1598045 (Del Ch. Feb. 26, 2015) (discussed in footnote 85 below) it is not clear to what extent a redemption obligation can be given priority over other obligations the board views as more important, consideration should be given to expanding the protective provisions in Section 3.3 in the event that a redemption obligation is not honored to include consent rights over uses of funds for other purposes, particularly where those alternative uses involve deviations from the Corporation’s previous ordinary course operations.

<sup>82</sup> Fair market value could also be determined by the Board with the concurrence of the designee of the holders of Preferred Stock on the Board.

<sup>83</sup> The bracketed language, although not commonplace, may be desirable to minority investors in the Preferred. If this is included, also include the applicable bracketed language in Section 6.2.

<sup>84</sup> Investors may also seek enforcement provisions for failure to redeem, including provisions that may entitle the investors to gain control of the Board of Directors. Such provisions are generally atypical in early-stage venture transactions but are seen from time to time in private equity and late-stage venture transactions. However, that may change in the wake of the Delaware Chancery Court’s opinion in *SV Inv. Partners, LLC v. ThoughtWorks, Inc.*, 7 A.3d 973 (Del. Ch. 2010), in which the Court construed the words “funds legally available” in a manner unhelpful to investors. The Court described a number of “additional protections” that the investors could have included to give their redemption rights more teeth and stated that “sophisticated investors understand that mandatory redemption rights provide limited protection and function imperfectly, particularly when a corporation is struggling financially.” See also footnote 81.

(d) for holders of shares in certificated form, that the holder is to surrender to the Corporation, in the manner and at the place designated, his, her or its certificate or certificates representing the shares of Preferred Stock to be redeemed.

[If the Corporation receives, on or prior to the 20<sup>th</sup> day after the date of delivery of the Redemption Notice to a holder of Preferred Stock, written notice from such holder that such holder elects to be excluded from the redemption provided in this Section 6, then the shares of Preferred Stock registered on the books of the Corporation in the name of such holder at the time of the Corporation's receipt of such notice shall thereafter be "**Excluded Shares**." Excluded Shares shall not be redeemed or redeemable pursuant to this Section 6, whether on such Redemption Date or thereafter.]

6.3 Surrender of Certificates; Payment. On or before the applicable Redemption Date, each holder of shares of Preferred Stock to be redeemed on such Redemption Date, unless such holder has exercised his, her or its right to convert such shares as provided in Section 4, shall, if a holder of shares in certificated form, surrender the certificate or certificates representing such shares (or, if such registered holder alleges that such certificate has been lost, stolen or destroyed, a lost certificate affidavit and agreement reasonably acceptable to the Corporation to indemnify the Corporation against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of such certificate) to the Corporation, in the manner and at the place designated in the Redemption Notice, and thereupon the Redemption Price for such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof. In the event less than all of the shares of Preferred Stock represented by a certificate are redeemed, a new certificate, instrument, or book entry representing the unredeemed shares of Preferred Stock shall promptly be issued to such holder.

6.4 Interest. If any shares of Preferred Stock are not redeemed for any reason on any Redemption Date, all such unredeemed shares shall remain outstanding and entitled to all the rights and preferences provided herein, and the Corporation shall pay interest on the Redemption Price applicable to such unredeemed shares at an aggregate per annum rate equal to [12]% (increased by 1% each month following the Redemption Date until the Redemption Price, and any interest thereon, is paid in full), with such interest to accrue daily in arrears and be compounded [annually]; provided, however, that in no event shall such interest exceed the maximum permitted rate of interest under applicable law (the "**Maximum Permitted Rate**"), provided, however, that the Corporation shall take all such actions as may be necessary, including, without limitation, making any applicable governmental filings, to cause the Maximum Permitted Rate to be the highest possible rate. In the event any provision hereof would result in the rate of interest payable hereunder being in excess of the Maximum Permitted Rate, the amount of interest required to be paid hereunder shall automatically be reduced to eliminate such excess; provided, however, that any subsequent increase in the Maximum Permitted Rate shall be retroactively effective to the applicable Redemption Date to the extent permitted by law.<sup>85</sup>

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<sup>85</sup> This interest provision has been added as an alternative for investors wanting to address the Delaware Chancery Court's rulings in *TCV VI, L.P. v. TradingScreen Inc.*, 2015 WL 1598045 (Del Ch. Feb. 26, 2015, redacted March 27, 2015) and *SV Inv. Partners, LLC v. ThoughtWorks, Inc.*, 7 A.3d 973 (Del. Ch. 2010), which suggested that a board's decision regarding how much of a corporation's funds can be used to redeem mandatorily redeemable preferred stock is protected by the business judgment rule. Those rulings may allow a corporation's board of directors to defer a redemption obligation, even where the corporation has sufficient legal surplus to effect the redemption. Provisions such as this one provide an economic inducement for the corporation to effect the redemption, or at least provide some compensation to the investor for the corporation's failure to redeem. Note that it is important that the trigger for this provision, if utilized, should be the failure to pay the redemption price on the due date "for any reason" – the court in *Trading Screen* held that an increased interest rate upon a "default" with respect to payment of the redemption obligation was not triggered in that case because there is no "default" if the corporation cannot lawfully redeem the

6.5 Rights Subsequent to Redemption. If the Redemption Notice shall have been duly given, and if on the applicable Redemption Date the Redemption Price payable upon redemption of the shares of Preferred Stock to be redeemed on such Redemption Date is paid or tendered for payment or deposited with an independent payment agent so as to be available therefor in a timely manner, then notwithstanding that any certificates evidencing any of the shares of Preferred Stock so called for redemption shall not have been surrendered, dividends with respect to such shares of Preferred Stock shall cease to accrue after such Redemption Date and all rights with respect to such shares shall forthwith after the Redemption Date terminate, except only the right of the holders to receive the Redemption Price without interest upon surrender of any such certificate or certificates therefor.]

7. Redeemed or Otherwise Acquired Shares. Unless approved by the Board of Directors and the Requisite Holders, any shares of Preferred Stock that are redeemed, converted or otherwise acquired by the Corporation or any of its subsidiaries shall be automatically and immediately cancelled and retired and shall not be reissued, sold or transferred. Neither the Corporation nor any of its subsidiaries may exercise any voting or other rights granted to the holders of Preferred Stock following redemption, conversion or acquisition. The Corporation may thereafter take such appropriate action (without the need for stockholder action) as may be necessary to reduce the authorized number of shares of Preferred Stock accordingly.

8. Waiver. Except as otherwise set forth herein, (a) any of the rights, powers, preferences and other terms of the Preferred Stock set forth herein may be waived on behalf of all holders of Preferred Stock by the affirmative written consent or vote of the holders that would otherwise be required to amend such right, powers, preferences, and other terms and (b) at any time more than one series of Preferred Stock is issued and outstanding, any of the rights, powers, preferences and other terms of any series of Preferred Stock set forth herein may be waived on behalf of all holders of such series of Preferred Stock by the affirmative written consent or vote of the holders of such series that would otherwise be required to amend such right, power, preference, or other term.

9. Notices. Any notice required or permitted by the provisions of this Article Fourth to be given to a holder of shares of Preferred Stock shall be mailed, postage prepaid, to the post office address last shown on the records of the Corporation, or given by electronic transmission in compliance with the provisions of the General Corporation Law, and shall be deemed sent upon such mailing or electronic transmission.

**FIFTH:** Subject to any additional vote required by this Certificate of Incorporation or the Bylaws of the Corporation, in furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, repeal, alter, amend and rescind any or all of the Bylaws of the Corporation.

**SIXTH:** Subject to any additional vote required by this Certificate of Incorporation, the

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stock. Including this type of interest provision to induce compliance with a redemption obligation may be even more important following the Delaware Chancery Court's ruling in *Frederick Hsu Living Tr. v. ODN Holding Corp.*, 2017 WL 1437308 (Del. Ch. Apr. 14, 2017), in which the court suggested that where the amount of a redemption obligation is fixed and will not increase over time a board of directors may breach its fiduciary duties by complying with such obligation rather than growing the corporation's business for the benefit of the corporation's common stockholders and gradually redeeming shares over a long-term horizon. The court also noted that absent an increasing redemption obligation, the holders of redeemable stock are in a relatively weak contractual position to cause the corporation to redeem their shares and that the board of directors may have an obligation to leverage such weak position for the benefit of the corporation and its residual claimants, including by, among other things, not agreeing to confer benefits (such as a new cumulative dividend) in exchange for a holder's forbearance of the exercise of a redemption obligation.

number of directors of the Corporation shall be determined in the manner set forth in the Bylaws of the Corporation.

**SEVENTH:** Elections of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

**EIGHTH:** Meetings of stockholders may be held within or outside of the State of Delaware, as the Bylaws of the Corporation may provide. The books of the Corporation may be kept (subject to any provision of applicable law) outside of the State of Delaware at such place or places or in such manner or manners as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

**NINTH:** To the fullest extent permitted by law, a director [or officer] of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director [or officer]. If the General Corporation Law or any other law of the State of Delaware is amended after approval by the stockholders of this Article Ninth to authorize corporate action further eliminating or limiting the personal liability of directors [or officers], then the liability of a director [or officer] of the Corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law as so amended.

Any amendment, repeal or elimination of the foregoing provisions of this Article Ninth by the stockholders of the Corporation shall not adversely affect any right or protection of a director [or officer] of the Corporation existing at the time of, or increase the liability of any director [or officer] of the Corporation with respect to any acts or omissions of such director [or officer] occurring prior to, such amendment, repeal or elimination.<sup>86</sup>

**TENTH**<sup>87</sup> To the fullest extent permitted by applicable law, the Corporation is authorized to provide indemnification of (and advancement of expenses to) directors, officers and agents of the Corporation (and any other persons to which the General Corporation Law permits the Corporation to provide indemnification) through Bylaw provisions, agreements with such agents or other persons, vote of stockholders or disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 145 of the General Corporation Law.

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<sup>86</sup> The DGCL was amended effective August 1, 2022 to expand the scope of persons who can be exculpated from breaches of the duty of care to include certain officers. This was done in response to a trend in public company stockholder litigation of suing inside board members in their capacities as officers (as well as directors) in order to avoid dismissal of fiduciary duty claims for which directors are exculpated under *In re Cornerstone Therapeutics, Inc.*, 115 A.3d 1173 (Del. 2015). See generally, Lawrence A. Hamermesh, Jack B. Jacobs & Leo E. Strine, Jr., *Optimizing The World's Leading Corporate Law: A Twenty-Year Retrospective and Look Ahead*, 77 Bus. Law. 321, 364-71 (2022). The inclusion of such a provision will not prevent investors from suing officers for breaches of the duty of loyalty or bringing derivative actions against them for breach of the duty of care (just direct actions). From the investor's standpoint, whether to include executive officers in the exculpation provision involves balancing the ability of investors to sue officers directly for breaches of the duty of care (as opposed to derivatively) and the benefits of providing officers with the maximum protection against stockholder suits permitted by law. There is also the possibility that including such a provision may lower D&O insurance rates, which would need to be determined on a company-by-company basis.

<sup>87</sup> This provision authorizes the indemnification of directors, officers and agents of the Corporation, but does not require it. Investors who have the right or ability to appoint affiliates to the Board of Directors often request that more detailed, mandatory indemnification provisions be included in the Certificate of Incorporation, bylaws, and/or indemnification contracts and insurance coverage. A form of mandatory indemnification provision, which could be inserted in this Article Tenth in place of what is currently there, is attached as Exhibit A.

Any amendment, repeal, modification or elimination of the foregoing provisions of this Article Tenth shall not (a) adversely affect any right or protection of any director, officer or other agent of the Corporation existing at the time of such amendment, repeal, modification or elimination; or (b) increase the liability of any director, officer or agent of the Corporation with respect to any acts or omissions of such director, officer or agent occurring prior to such amendment, repeal, modification or elimination.

**ELEVENTH:** The Corporation renounces, to the fullest extent permitted by law, any interest or expectancy of the Corporation in, or in being offered an opportunity to participate in, any Excluded Opportunity. An “**Excluded Opportunity**” is any matter, transaction or interest that is presented to, or acquired, created or developed by, or which otherwise comes into the possession of (i) any director of the Corporation who is not an employee of the Corporation or any of its subsidiaries, or (ii) any holder of Preferred Stock or any partner, member, director, stockholder, employee, affiliate or agent of any such holder, other than someone who is an officer or employee of the Corporation or any of its subsidiaries (collectively, the persons referred to in clauses (i) and (ii) are “**Covered Persons**”), unless such matter, transaction or interest is presented to, or acquired, created or developed by, or otherwise comes into the possession of, a Covered Person expressly and solely in such Covered Person’s capacity as a director of the Corporation while such Covered Person is performing services in such capacity. Any repeal or modification of this Article Eleventh will only be prospective and will not affect the rights under this Article Eleventh in effect at the time of the occurrence of any actions or omissions to act giving rise to liability. Notwithstanding anything to the contrary contained elsewhere in this Certificate of Incorporation, in addition to any other vote required by law or this Certificate of Incorporation, the affirmative vote of the Requisite Holders will be required to amend or repeal, or to adopt any provisions inconsistent with this Article Eleventh.<sup>88</sup>

**TWELFTH:** [Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery in the State of Delaware shall be the sole and exclusive forum for any stockholder (including a beneficial owner) to bring (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of fiduciary duty owed by any director, officer or other employee of the Corporation to the Corporation or the Corporation’s stockholders, (iii) any action asserting a claim against the Corporation, its directors, officers or employees arising pursuant to any provision of the General Corporation Law or the Corporation’s certificate of incorporation or bylaws or (iv) any action asserting a claim against the Corporation, its directors, officers or employees governed by the internal affairs doctrine or that otherwise relates to the internal affairs of the Corporation, except for, as to each of (i) through (iv) above, any claim as to which the Court of Chancery determines that there is an indispensable party not subject to the jurisdiction of the Court of Chancery (and the indispensable party does not consent to the personal jurisdiction of the Court of Chancery within 10 days following such determination), which is vested in the exclusive jurisdiction of a court or forum other than the Court of Chancery, or for which the Court of Chancery does not have subject matter jurisdiction.]<sup>89</sup>

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<sup>88</sup> Section 122(17) of the DGCL permits the Corporation to renounce in its Certificate of Incorporation the Corporation’s interest or expectancy in specified business opportunities or specified classes or categories of business opportunities. This enables the Corporation to determine in advance whether these opportunities are corporate opportunities of the Corporation rather than to address such opportunities as they arise. Venture capital investors may be concerned about having to provide these opportunities to the Corporation and thus may seek this type of provision. Note that the defined term “Excluded Opportunity” in the above example is very pro-investor. The foregoing Article Eleventh is merely an example of such a provision, and is not necessarily an appropriate starting point for any particular transaction.

<sup>89</sup> In order to avoid forum shopping in a situation where several courts might have personal and subject matter jurisdiction over the parties and claims, Delaware corporations may elect to have Delaware courts be the exclusive forum for any stockholder litigation. Courts outside of Delaware have generally enforced Delaware exclusive forum provisions.

**THIRTEENTH:** If any provision or provisions of this Certificate of Incorporation shall be held to be invalid, illegal or unenforceable as applied to any person or entity or circumstance for any reason whatsoever, then, to the fullest extent permitted by law, the validity, legality and enforceability of such provisions in any other circumstance and of the remaining provisions of this Certificate of Incorporation (including, without limitation, each portion of any sentence of this Certificate of Incorporation containing any such provision held to be invalid, illegal or unenforceable that is not itself held to be invalid, illegal or unenforceable) and the application of such provision to other persons or entities and circumstances shall not in any way be affected or impaired thereby.

**FOURTEENTH:** [For purposes of Section 500 of the California Corporations Code (to the extent applicable), in connection with any repurchase of shares of Common Stock permitted under this Certificate of Incorporation from employees, officers, directors or consultants of the Corporation in connection with a termination of employment or services pursuant to agreements or arrangements approved by the Board of Directors (in addition to any other consent required under this Certificate of Incorporation), such repurchase may be made without regard to any “preferential dividends arrears amount” or “preferential rights amount” (as those terms are defined in Section 500 of the California Corporations Code). Accordingly, for purposes of making any calculation under California Corporations Code Section 500 in connection with such repurchase, the amount of any “preferential dividends arrears amount” or “preferential rights amount” (as those terms are defined therein) shall be deemed to be zero.]<sup>90</sup>

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**3.** That the foregoing amendment and restatement was approved by the holders of the requisite number of shares of this corporation in accordance with Section 228 of the General Corporation Law.

**4.** That this Certificate of Incorporation, which restates and integrates and further amends the provisions of the Corporation’s Certificate of Incorporation, has been duly adopted in accordance with Sections 242 and 245 of the General Corporation Law.

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<sup>90</sup> Because Section 2115 of the California Corporations Code purports to impose California corporate laws on foreign corporations with sufficient assets and stockholders in the State of California, corporations incorporated in other states with California stockholders and assets in California should consider adopting a provision similar to the one above. Section 500(a) of the California Corporations Code sets forth a solvency test governing when a corporation may make distributions to stockholders or redeem shares of stock, including distributions to junior stockholders and redemptions of junior stock. Section 502(b) of the California Corporations Code allows the corporation and the holders of Preferred Stock to opt out of the restrictions on distributions to junior stockholders and redemptions of junior stock in the Certificate of Incorporation. Consider whether other board-approved repurchases should be opted out as well.

**IN WITNESS WHEREOF**, this Amended and Restated Certificate of Incorporation has been executed by a duly authorized officer of this corporation on \_\_\_\_\_.<sup>91</sup>

By: \_\_\_\_\_  
President

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<sup>91</sup> See Section 103 of the DGCL for the requirements regarding the execution of the Restated Certificate of Incorporation.

## **EXHIBIT A**<sup>92</sup>

### (Alternative Indemnification Provisions)

**TENTH:** The following indemnification provisions shall apply to the persons enumerated below.

1. Right to Indemnification of Directors and Officers.<sup>93</sup> The Corporation shall indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person (an “**Indemnified Person**”) who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a “**Proceeding**”), by reason of the fact that such person, or a person for whom such person is the legal representative, is or was a director or officer of the Corporation or, while a director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, limited liability company, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys’ fees) reasonably incurred by such Indemnified Person in such Proceeding. Notwithstanding the preceding sentence, except as otherwise provided in Section 3 of this Article Tenth, the Corporation shall be required to indemnify an Indemnified Person in connection with a Proceeding (or part thereof) commenced by such Indemnified Person only if the commencement of such Proceeding (or part thereof) by the Indemnified Person was authorized in advance by the Board of Directors.<sup>94</sup>

2. Prepayment of Expenses of Directors and Officers. The Corporation shall pay the expenses (including attorneys’ fees) incurred by an Indemnified Person in defending any Proceeding in advance of its final disposition, provided, however, that, to the extent required by law, such payment of expenses in advance of the final disposition of the Proceeding shall be made only upon receipt of an undertaking by the Indemnified Person to repay all amounts advanced if it should be ultimately determined that the Indemnified Person is not entitled to be indemnified under this Article Tenth or otherwise.

3. Claims by Directors and Officers. If a claim for indemnification or advancement of expenses under this Article Tenth is not paid in full within 30 days after a written claim therefor by the Indemnified Person has been received by the Corporation, the Indemnified Person may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the Corporation shall have the burden of proving that the Indemnified Person is not entitled to the requested indemnification or advancement of expenses under applicable law.

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<sup>92</sup> If indemnification agreements will be used for directors, care should be given to ensure that the provisions of such indemnification agreements and any mandatory indemnification provision contained in the Certificate of Incorporation or bylaws (or elsewhere) do not conflict.

<sup>93</sup> Most bylaws make indemnification of officers mandatory, but non-officer employees discretionary. The line between officers and employees in some companies is vague, with employees having titles such as Vice President etc. In Delaware, in the absence of a definition, “officers” may be interpreted to encompass all employees with the officer titles authorized in the bylaws, such as “vice presidents”. Consideration should be given to whether it would be appropriate to add a definition of “officers” so as to limit officers for whom indemnification is mandatory. Such a provision might read, “For purposes of this Article Tenth, “officers” shall include [only officers appointed by the Board of Directors][officers with a title above *[Title]*”.

<sup>94</sup> Consider adding other exceptions as provided in Section 9 of the model Indemnification Agreement. Recent provisions may also include exceptions for conduct found to be in violation of the Corporation’s Code of Conduct.



4. Indemnification of Employees and Agents. The Corporation may indemnify and advance expenses to any person who was or is made or is threatened to be made or is otherwise involved in any Proceeding by reason of the fact that such person, or a person for whom such person is the legal representative, is or was an employee or agent of the Corporation or, while an employee or agent of the Corporation, is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, limited liability company, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by such person in connection with such Proceeding. The ultimate determination of entitlement to indemnification of persons who are non-director or officer employees or agents shall be made in such manner as is determined by the Board of Directors in its sole discretion. Notwithstanding the foregoing sentence, the Corporation shall not be required to indemnify a person in connection with a Proceeding initiated by such person if the Proceeding was not authorized in advance by the Board of Directors.

5. Advancement of Expenses of Employees and Agents. The Corporation may pay the expenses (including attorneys' fees) incurred by an employee or agent in defending any Proceeding in advance of its final disposition on such terms and conditions as may be determined by the Board of Directors.

6. Non-Exclusivity of Rights. The rights conferred on any person by this Article Tenth shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of this Certificate of Incorporation, the Bylaws of the Corporation, or any agreement, or pursuant to any vote of stockholders or disinterested directors or otherwise.

7. Other Indemnification. The Corporation's obligation, if any, to indemnify any person who was or is serving at its request as a director, officer or employee of another corporation, partnership, limited liability company, joint venture, trust, organization or other enterprise shall be reduced by any amount such person may collect as indemnification from such other corporation, partnership, limited liability company, joint venture, trust, organization or other enterprise.

8. Insurance. The Board of Directors may, to the full extent permitted by applicable law as it presently exists, or may hereafter be amended from time to time, authorize an appropriate officer or officers to purchase and maintain at the Corporation's expense insurance: (a) to indemnify the Corporation for any obligation which it incurs as a result of the indemnification of directors, officers and employees under the provisions of this Article Tenth; and (b) to indemnify or insure directors, officers and employees against liability in instances in which they may not otherwise be indemnified by the Corporation under the provisions of this Article Tenth.

9. Amendment or Repeal. Any repeal or modification of the foregoing provisions of this Article Tenth shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to the time of such repeal or modification. The rights provided hereunder shall inure to the benefit of any Indemnified Person and such person's heirs, executors and administrators.