A founder-friendly term sheet

When I invest (outside of YC) I make offers with the following term sheet. I've tried to make the terms reflect what I wanted when I was a founder. A few people have asked me if I'd share it, so here it is. I think it's pretty founder-friendly.

If you believe the upside risk theory, then it makes sense to offer compelling terms and forgo some downside protection to get the best companies to want to work with you.

What's most important is what's not in it:

*No option pool. Taking the option pool out of the pre-money valuation (ie, diluting only founders and not investors for future hires) is just a way to artificially manipulate valuation. New hires benefit everyone and should dilute everyone.

*The company doesn't have to pay any of my legal fees. Requiring the company to pay investors' legal fees always struck me as particularly egregious—the company can probably make better use of the money than investors can, so I'll pay my own legal fees for the round (in a simple deal with no back and forth they always end up super low anyway).

*No expiration. I got burned once by an exploding offer and haven't forgotten it; the founders can take as much time as they want to think about it. In practice, people usually decide pretty quickly.

*No confidentiality. Founder/investor relationships are long and important. The founders should talk to whomever they want, and if they want to tell people what I offered them, I don't really care. Investors certainly tell each other what they offer companies. (Once we shake hands on a deal, of course, I expect the founders to honor it.)

*No participating preferred, non-standard liquidation preference, etc. There is a 1x liquidation preference, but I'm willing to forgo even that and buy common shares (and sometimes do, although it has implications on the strike price for employee options so most founders don't want it). In early-stage investing, you should not focus on downside protection.

I have an allergic reaction to complex deal structures, as they invariably end up with all sorts of unintended consequences. Also, getting this right in early rounds is important—future rounds tend to do whatever the previous rounds did.

(What I do care about is ownership percentage and pro rata rights to maintain that ownership percentage in future rounds. Most of the rest I don't care about, but it's never contentious anyway.)

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