

IST CUBE Term Sheet for [YOUR] GmbH

IST CUBE's mission is to enable university spin offs to grow and thrive. In most cases you will require external funding to do that. We see IST CUBE as a tool that helps you, the founders, to bridge the academic realm and the world of venture capital. With this in mind, we have drafted the following term sheet, that lays out the key provisions of venture capital funding in simple terms. While our terms are generally quite founder friendly, they provide a solid framework for further future financing rounds.

We, IST CUBE GmbH & Co KG ("IST CUBE"), are excited about your company [...] GmbH and intend to make an investment, based on the following provisions.

The Offer

We're making you an offer of a €[...] investment as your seed round. This investment will be for [...]% of the ownership in your company post money. Your company will issue to us the same type of common shares that the founders already have, subject to the additional rights set out below.

Option Pool

Our offer assumes that you've already or will set up an employee stock option pool before our money goes in, so that our ownership is "fully-diluted" after accounting for that option pool. We think you'll need at least a 10% option pool after the investment round in order to hire some key management team members and senior people. To illustrate this, see the attached cap table showing the shareholding and ownership percentages before and after the investment.

Conditions to Close

Before we sign the paperwork and transfer the money, we have to do some basic due diligence on the company and also on you, the founders. We need to see that all of the company's relevant employees and freelancers have signed employment or similar contracts which make it clear that the company owns all of the intellectual property that's been created for the business you're building. Core IP required by the company and held by the founders or third parties should be subject to IP transfer agreements. We also need to perform anti-money laundering checks required by law. At the same time, if you haven't already done so, you should also do a bit of due diligence on us. For example, speak to some of the founders we have worked with and get a feel for what they think of us. We'd be glad to make introductions if it helps.

Estimated Closing Date

We'll use our standard legal agreements which you should review, preferably with a lawyer to help. We hope that we can wrap this all up and finish the investment round with signed paperwork and money in your account no later than 4 weeks from today.

Language

All our legal agreements are in English, the ones that are legally required to be in German are bilingual.

Use of Proceeds

You will use the proceeds of the investment exclusively for the development and the operation of the company in accordance with the business plan and budget to be approved by us prior to signing of the legal agreements.

Documentation and Warranties

It's worth mentioning that our standard investment docs will include some "representations and warranties". These are assurances that you give to us that the status of the company as well as the business we're investing in is what you say it is. Normally investors have the right to financial claims against the founders and the company if they've misrepresented the business of the company or its status, but we limit our right to claim so that it's only against the company, not the founders, either via cash indemnification or compensatory capital increase and the indemnification amount can't be more than the amount we're investing.

Liquidation Preference

We're not asking for any complex preference rights, but we do ask for a so-called simple (non participating) 1x liquidation preference. This means that if the company is sold, we'll get the higher of either the amount of our investment or our ownership percentage of the sale value. In the worst case if the company is wound down with very little left, then anything left would be distributed to us as the investor.

Important Decisions

We're here to support you, not to interfere in your day-to-day business operations, but we do have a list of material business decisions (Annex 1) that we believe should be approved by a majority of the investors' votes. This also applies to major structural decisions (Annex 2) including issuing new shares, amendments of articles, etc.

Service agreement

IST CUBE's internal structure requires us to include in kind services on top of our cash investment. This will not affect the valuation, nor the cash amount we commit to invest as mentioned above.

Pre-emption Rights

We think all shareholders, including the founders, should have the right to invest in future financing rounds to avoid being diluted. This doesn't mean shareholders have to put more money in, but if they want to and are able to, they have that right to maintain their ownership in any future financing round.

Right of First Refusal and Co-Sale

If any shareholder wants to sell its shares to someone else, other shareholders have the option to buy those shares on the same terms or to co-sell their own shares (on a pro rata basis), again on the same terms (except for the liquidation preference of the investors).

Drag-Along

If shareholders owning more than 50% of the shares in the company (which pursuant to the cap table also includes the founders) want to sell their shares (typically to accept an acquisition offer) then, as long as a majority of the investors' votes approve it, all other shareholders must also sell their shares on the same terms (except for the liquidation preference of the investors). This protects all shareholders from, say, one small, stubborn shareholder refusing to sell their shares in an acquisition offer and blocking a deal everyone else wants to see happen.

Restrictive Covenants

We don't want any of you to start a competitive business or to leave and take team members with you to another business even if it's not competitive. That's not why we are investing in the company and your co-founders wouldn't be very happy with you either. These restrictions apply for as long as you're employed by the company or hold at least 10% in equity, whatever is longer, and for 1 year after that.

Founder Shares

We are fundamentally investing in you and your co-founders for the long haul and we expect you to have the same view. You are investing your time on the premise that your co-founders are doing the same. Even after our investment, you the founders will still hold the majority of the shares in the company. We want to protect us and you against the scenario that we invest and then the day after you or one of your co-founders skips off and everyone else is stuck as shareholders. It may sound far-fetched, but it happens. Making your shares subject to reverse vesting protects your co-founders and us if one of you leaves the company prematurely. Your shares will be earned monthly over 3 years meaning, for example, that if you give up on the team or your agreement is terminated due to good cause after 18 months, the other shareholders have the right to buy back half of your shares from you.

Advisory Board ("Beirat")

In case you decide to establish an advisory board, we think you should control your board, but we generally like to have a seat too. We don't take board control. Sometimes it makes sense for us just to have a less formal observer, non-voting seat.

Information Rights

We'd like to get regular status updates from you in whatever format makes most sense for us all. For our own fund reporting purposes we'll need monthly, quarterly and annual financial reports from you. In order to be able to be helpful, we also need to see all budgets and forecasts.

Expenses

You (i.e. the company) pay for your legal costs and we pay ours. We don't see why we'd invest cash in your business only for some of it to come straight back out in order to pay our legal bills. We see whatever this deal costs us as our cost of doing business. However, if after execution of this term sheet, you demand rights materially deviating from the terms set forth herein or if you decide not to pursue the investment without good reason caused by us, you will understand that we may claim our incurred external legal costs.

Exclusivity

If we both sign this term sheet, it means we'll all be putting time and effort into completing the investment over the next 4 weeks. We don't want you (i.e. the company) or any of the founders to keep pitching to or entering into discussions with other investors potentially to replace us during that period. If you or any of the founders decide to switch to or enter into discussions with another investor in that period and it's not because we've done anything wrong, then we might charge you for our external legal costs.

Confidentiality

We trust your judgement in deciding who to talk to about this offer and when. This is a non-binding offer and things can unfortunately always fall through, so it's really not in your interest nor ours to pre-announce or disclose anything until the investment is done.

Non-binding Effect

Except for the above provisions on confidentiality, exclusivity and expenses as well as this section, this document isn't legally binding, but we're still pretty excited about it and the prospect of working with you.

Expiry

We hope you'll decide relatively quickly on whether or not you want to move ahead with us. Obviously it's a big decision so don't take it lightly, but time is your most valuable asset right now and the quicker we move forward and get cash into the company, the quicker you'll be able to focus on building a great business. This offer remains open for a week.

Acceptance

If you're happy with all of this, sign below, or just tell us so in an email reply. Thanks for giving us the chance to pitch to you!

Offered on [...], 2020 by

Markus Wanko, IST CUBE

Alexander Schwartz, IST CUBE

Name: ----- Company: ----- Date: -----

Material Business Decisions

- (a) Entering into or amend material terms of convertible loan agreements, option plans or similar arrangements;
- (b) purchase, sale, increase or decrease of participations in legal entities, including the formation of subsidiaries;
- (c) approval of company's budget and deviations of more than 10% of the budget;
- (d) incurring or granting loans of more than EUR 50,000 (Euro fifty thousand) in total in a financial year, excluding supplier credits in the ordinary course of business and subsidy related loans;
- (e) all measures and transactions of the company with its (direct or indirect) shareholders or their family members as well as with companies in which (direct or indirect) shareholders or their family members are holding a direct or indirect interest;
- (f) implementation or adaption of bonus, pension or other award schemes for employees and/or consultants as well as the allocation of rights under such schemes to new employees/consultants;
- (g) appointment and revocation of managing directors; and
- (h) entering into, amendment and termination of management agreements.

The approval of the transactions and measures listed above that are carried out during a fiscal year is not necessary in case such transactions and measures are specifically set out in the budget approved without any reservation by the shareholders including majority of investors' votes for the respective fiscal year.

Major Structural Decisions

- (a) Increases and decreases of the share capital, including the creation of any new class of shares or any other securities or equity or subordinated debt instruments;
- (b) amendments of articles;
- (c) dissolution and/or liquidation of the company;
- (d) payment of dividends;
- (e) disposal (including by way of exclusive licenses and sale-and-lease-back transactions) of at least 75% or more of the tangible or intangible assets of the Company (calculated at fair market values and irrespective of whether such assets may be shown in the company's financial statements under applicable generally accepted accounting principles); and
- (f) Sale or IPO of the Company;

Cap Table

	Starting Shares		Equity Investment	New Shares	ESOP	Total Shares	
Founder A		..%	€..	0			..%
Founder B		..%	€..	0			..%
ESOP	..	..%	€..	..	..	..	..%
IST Cube	0	0.0%	€..	..		..	..%
Co-Investor A	0	0.0%	€..	..		..	..%
Total	..	100.00%	€..	..	..	..	100.00%