**LAUNCH DAYTON**

**STARTUP WEEK 2025**

**UNDERSTANDING VENTURE CAPITAL**

**TERM SHEETS**

**John C. Rodney**

**Clark Hill PLC**

**412-780-2475**

[**jrodney@clarkhill.com**](mailto:jrodney@clarkhill.com)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Premoney Value Illustration | Example 1 |  | Example 2 | |  | |
|  |  |  |  | |  | |
| Shares Outstanding | 100,000 |  | 100,000 | |  | |
| Option Pool | 10,000 |  | 10,000 | |  | |
| Warrants | 6,000 |  | 6,000 | |  | |
| Fully Diluted Shares | 116,000 |  | 116,000 | |  | |
|  |  |  |  | |  | |
| Premoney Value | 4,000,000 |  | 10,000,000 | |  | |
| Fully Diluted Shares | 116,000 |  | 116,000 | |  | |
| Price Per Share | 34.48 |  | 86.21 | |  | |
|  |  |  |  | |  | |
| Investment Amount | 1,500,000 |  | 1,500,000 | |  | |
| Postmoney Value | 5,500,000 |  | 11,500,000 | |  | |
|  |  |  | |  | |
|  |  | Percentage | |  | |
| Investor Shares | 43,500 | 27.3% | 17,400 | | 13.0% | |
| Shares Outstanding | 100,000 | 62.7% | 100,000 | | 75.0% | |
| Option Pool | 10,000 | 6.3% | 10,000 | | 7.5% | |
| Warrants | 6,000 | 3.8% | 6,000 | | 4.5% | |
| Total | 159,500 | 100.0% | 133,400 | | 100.0% | |

|  |  |
| --- | --- |
| Company |  |
|  |  |
| Year | 2030 |
| Projected Pre-Tax Profits | 10,000,000 |
| Tax Rate | 35% |
| Projected After Tax Profits | 6,500,000 |
| Market P/E Ratio | 20 |
| Projected Valuation | 130,000,000 |
|  |  |
| Current Pre-Money Valuation | 4,000,000 |
| Investment | 1,500,000 |
| Percentage Owned by Investor | 27.27% |
| Dilution by Future Rounds | 15.00% |
| Final Investor Percentage | 23.18% |
|  |  |
| Projected Value of Investors' Interest | 30,134,000 |
| Term of Investment | 5 |
| Projected IRR | 82.22% |
| Multiple of Initial Investment | 20 |

|  |  |  |  |
| --- | --- | --- | --- |
| So, based on the current pre-money valuation, if Company has after tax profits of $6,500,000 as projected | | | |
| and the company achieves a market value of 20 times after tax earnings, |  |  |  |
| an investor in the current round will achieve a return of 20 times its initial investment. | |  |  |

Note: this chart is not based on the premoney values shown on the previous page.

Interesting Reference:

NEW FOR 3.0

TikTok – Nichole Wischoff – Wischoff Ventures

Kate McAndrews - Baukunst

SAFEs - <https://www.upcounsel.com/safe-notes>

[www.ycombinator.com/documents](http://www.ycombinator.com/documents)

**TERM SHEET[[1]](#footnote-2)**

**FOR SERIES A PREFERRED STOCK FINANCING OF**

**GEM CITY, INC.**

**September 10, 2025**

This Term Sheet summarizes the principal terms of the Series A Preferred Stock Financing of Gem City, Inc., a Delaware corporation (the “**Company**”). In consideration of the time and expense devoted and to be devoted by the Investors with respect to this investment, the No Shop/Confidentiality provisions of this Term Sheet shall be binding obligations of the Company whether or not the financing is consummated. No other legally binding obligations will be created until definitive agreements are executed and delivered by all parties. This Term Sheet is not a commitment to invest, and is conditioned on the completion of the conditions to closing set forth below. This Term Sheet shall be governed in all respects by the laws of Delaware.

|  |  |
| --- | --- |
| **Offering Terms** |  |
| Security: | Series A Preferred Stock (the “**Series A Preferred**”). |
| Closing Date: | As soon as practicable following the Company’s acceptance of this Term Sheet and satisfaction of the conditions to closing (the “**Closing**”). |
| Conditions to Closing: | Standard conditions to Closing, including, among other things, satisfactory completion of financial and legal due diligence, qualification of the shares under applicable Blue Sky laws, the filing of a Certificate of Incorporation establishing the rights and preferences of the Series A Preferred, obtaining CFIUS clearance and/or a statement from CFIUS that no further review is necessary, and an opinion of counsel to the Company. |
| *[Investors](#_Median_Fully_Diluted):* | Investor No. 1: Dayton Venture Fund, 50,000 shares (25%), $5,000,000  Investor No. 2: Flyer Venture Fund, 25,000 shares (12.5%), $2,500,000  [as well other investors mutually agreed upon by Investors and the Company] |
| [Amount Raised](#_Median_Amount_Raised_1) | $10,000,000, including $250,000 from the conversion of principal and interest on bridge notes.[[2]](#footnote-3) |
| *[Pre-Money Valuation](#_Median_SAFE_vs):* | The price per share of the Series A Preferred (the “**Original Purchase Price**”) shall be the price determined on the basis of a fully-diluted pre-money valuation of $10,000,000 (which pre-money valuation shall include an unallocated and uncommitted employee option pool representing 10% of the fully‑diluted post-money capitalization) and a fully‑diluted post-money valuation of $20,000,000. |
| CHARTER | |
| [Dividends](#_Frequency_of_Non-Cumulative): | Non-cumulative dividends will be paid on the Series A Preferred in an amount equal to $1.00 per share of Series A Preferred when and if declared by the Board of Directors. |
| [Liquidation Preference](#_Frequency_of_1x): | In the event of any liquidation, dissolution or winding up of the Company, the proceeds shall be paid as follows:  First pay one times the Original Purchase Price on each share of Series A Preferred. Thereafter, Series A Preferred participates with Common Stock pro rata on an as-converted basisuntil the holders of Series A Preferred receive an aggregate of threetimes the Original Purchase Price (including the amount paid pursuant to the preceding sentence).  A merger or consolidation (other than one in which stockholders of the Company own a majority by voting power of the outstanding shares of the surviving or acquiring corporation) or a sale, lease, transfer, exclusive licenseor other disposition of all or substantially all of the assets of the Company will be treated as a liquidation event (a “**Deemed Liquidation Event**”), thereby triggering payment of the liquidation preferences described above unless the holders of more than 50% of the Series A Preferred elect otherwise (the “**Requisite Holders**”). The Investors’ entitlement to their liquidation preference shall not be abrogated or diminished in the event part of the consideration is subject to escrow or indemnity holdback in connection with a Deemed Liquidation Event. |
| Voting Rights: | The Series A Preferred shall vote together with the Common Stock on an as-converted basis, and not as a separate class, except (i) so long as 50 % of the shares of Series A Preferred issued in the transaction are outstanding, the Series A Preferred as a separate class shall be entitled to elect two members of the Board of Directors (each a “Preferred Director”), (ii) as required by law, and (iii) as provided in “Protective Provisions” below. The Company’s Charter will provide that the number of authorized shares of Common Stock may be increased or decreased with the approval of a majority of the Preferred and Common Stock, voting together as a single class, and without a separate class vote by the Common Stock. |
| Protective Provisions: | So long as 50% of the shares of Series A Preferred issued in the transaction are outstanding, in addition to any other vote or approval required under the Company’s Charter or Bylaws, the Company will not, without the written consent of the Requisite Holders, either directly or by amendment, merger, consolidation, recapitalization, reclassification, or otherwise:  (i) liquidate, dissolve or wind‑up the affairs of the Company or effect any Deemed Liquidation Event; (ii) amend, alter, or repeal any provision of the Charter or Bylaws;(iii) create or authorize the creation of or issue any other security convertible into or exercisable for any equity security unless the same ranks junior to the Series A Preferred with respect to its rights, preferences and privileges, or increase the authorized number of shares of Series A Preferred; (iv) sell, issue, sponsor, create or distribute any digital tokens, cryptocurrency or other blockchain-based assets without approval of the Board of Directors, including the Investor Directors; (v) purchase or redeem or pay any dividend on any capital stock prior to the Series A Preferred, other than stock repurchased at cost from former employees and consultants in connection with the cessation of their service, or as otherwise approved by the Board of Directors, including the approval of at least one Preferred Director; or (vi) adopt, amend, terminate or repeal any equity (or equity-linked) compensation plan or amend or waive any of the terms of any option or other grant pursuant to any such plan; (vii) create or authorize the creation of any debt security, if the aggregate indebtedness of the Corporation and its subsidiaries for borrowed money following such action would exceed $100,000 other than equipment leases, bank lines of credit or trade payables incurred in the ordinary course unless such debt security has received the prior approval of the Board of Directors, including the approval of at least one Preferred Director; (viii) create or hold capital stock in any subsidiary that is not wholly-owned, or dispose of any subsidiary stock or all or substantially all of any subsidiary assets; or (ix) 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. |
| Optional Conversion: | The Series A Preferred initially converts 1:1 to Common Stock at any time at option of holder, subject to adjustments for stock dividends, splits, combinations and similar events and as described below under “Anti-dilution Provisions.” |
| [Anti-dilution Provisions](#_Frequency_of_Anti-Dilution): | In the event that the Company issues additional securities at a purchase price less than the current Series A Preferred conversion price, such conversion price shall be adjusted in accordance with the following formula:  CP2 = CP1 \* (A+B) / (A+C)  Where:  CP2 = Series A Conversion Price in effect immediately after new issue  CP1 = Series A Conversion Price in effect immediately prior to new issue  A = Number of shares of Common Stock deemed to be outstanding immediately prior to new issue (includes all shares of outstanding common stock, all shares of outstanding preferred stock on an as-converted basis, and all outstanding options on an as-exercised basis; and does not include any convertible securities converting into this round of financing)  B = Aggregate consideration received by the Company with respect to the new issue divided by CP1  C = Number of shares of stock issued in the subject transaction |
|  | The foregoing shall be subject to customary exceptions, including, without limitation, the following:  (i) securities issuable upon conversion of any of the Series A Preferred, or as a dividend or distribution on the Series A Preferred; (ii) securities issued upon the conversion of any debenture, warrant, option, or other convertible security; (iii) Common Stock issuable upon a stock split, stock dividend, or any subdivision of shares of Common Stock; (iv) shares of Common Stock (or options to purchase such shares of Common Stock) issued or issuable to employees or directors of, or consultants to, the Company pursuant to any plan approved by the Company’s Board of Directors including at least one Preferred Director(s), and other customary exceptions[[3]](#footnote-4). |
| Mandatory Conversion: | Each share of Series A Preferred will automatically be converted into Common Stock at the then applicable conversion rate in the event of the closing of a firm commitment underwritten public offering with a price of fivetimes the Original Purchase Price (subject to adjustments for stock dividends, splits, combinations and similar events) and gross proceeds to the Company of not less than $50 million (a “**QPO**”), or (ii) upon the written consent of the Requisite Holders. |
|  |  |
| [Redemption Rights](#_Frequency_of_Redemption): | Unless prohibited by applicable law governing distributions to stockholders, the Series A Preferred shall be redeemable at the option of the Requisite Holders commencing any time after the five year anniversary of the Closing at a price equal to the Original Purchase Price plus all declared but unpaid dividends. Redemption shall occur in three equal annual portions. Upon a redemption request from the holders of the required percentage of the Series A Preferred, all Series A Preferred shares shall be redeemed (except for any Series A holders who affirmatively opt-out). |
| STOCK PURCHASE AGREEMENT | |
| Representations and Warranties: | Standard representations and warranties by the Company customary for its size and industry. [Representations and warranties regarding CFIUS.][[4]](#footnote-5) |
| [Regulatory Covenants (CFIUS): | *To the extent a CFIUS filing is or may be required:* Investors and the Company shall use reasonable best efforts to submit the proposed transaction to the Committee on Foreign Investment in the United States (“**CFIUS**”) and obtain CFIUS clearance or a statement from CFIUS that no further review is necessary with respect to the parties’ [notice/declaration]]. |
| [Counsel and Expenses](#_Median_Lead_Investor): | Company counsel to draft applicable documents. Company to pay all legal and administrative costs of the financing [at Closing], including (subject to the Closing) reasonable fees (not to exceed $30,000) and expenses of Investor counsel. |
| INVESTORS’ RIGHTS AGREEMENT | |
| [Registration Rights](#_Frequency_of_Registration): |  |
| Registrable Securities: | All shares of Common Stock issuable upon conversion of the Series A Preferred and any other Common Stock held by the Investors will be deemed “**Registrable Securities**.” |
| Demand Registration: | Upon earliest of (i) five years after the Closing; or (ii) six months following an initial public offering (“**IPO**”), persons holding a majority of the Registrable Securities may request one (consummated) registrations by the Company of their shares. The aggregate offering price for such registration may not be less than $25 million. A registration will count for this purpose only if (i) all Registrable Securities requested to be registered are registered, and (ii) it is closed, or withdrawn at the request of the Investors (other than as a result of a material adverse change to the Company). |
| Registration on Form S-3: | The holders of 20% of the Registrable Securities will have the right to require the Company to register on Form S-3, if available for use by the Company, Registrable Securities for an aggregate offering price of at least $5 million. There will be no limit on the aggregate number of such Form S-3 registrations, provided that there are no more than two per 12 month period. |
| Piggyback Registration: | The holders of Registrable Securities will be entitled to “piggyback” registration rights on all registration statements of the Company, subject to the right, however, of the Company and its underwriters to reduce the number of shares proposed to be registered to a minimum of 30% on a pro rata basis and to complete reduction on an IPO at the underwriter’s discretion. In all events, the shares to be registered by holders of Registrable Securities will be reduced only after all other stockholders’ shares are reduced. |
| Expenses: | The registration expenses (exclusive of stock transfer taxes, underwriting discounts and commissions will be borne by the Company. The Company will also pay the reasonable fees and expenses, not to exceed $100,000 per registration, of one special counsel to represent all the participating stockholders. |
| Lock-up: | Investors shall agree in connection with the IPO, if requested by the managing underwriter, not to sell or transfer any shares of Common Stock of the Company held immediately before the effective date of the IPO for a period of up to 180 days following the IPO (provided all directors and officers of the Company and 2% stockholders agree to the same lock-up). Such lock-up agreement shall provide that any discretionary waiver or termination of the restrictions of such agreements by the Company or representatives of the underwriters shall apply to Investors, pro rata, based on the number of shares held. |
| Termination: | Upon a Deemed Liquidation Event in which similar rights are granted or the consideration payable to Investors consists of cash or securities of a class listed on a national exchange and/or after the IPO, when the Investor and its Rule 144 affiliates holds less than 1% of the Company’s stock and all shares of an Investor are eligible to be sold without restriction under Rule 144 and/or the third anniversary of the IPO**.**  No future registration rights may be granted without consent of the holders of amajority of the Registrable Securities unless subordinate to the Investor’s rights. |
| [Management and Information Rights](#_Median_Major_Investor): | A Management Rights letter from the Company, in a form reasonably acceptable to the Investors, will be delivered prior to Closing to each Investor that requires one.  Any Major Investor (who is not a competitor) will be granted access to Company facilities and personnel during normal business hours and with reasonable advance notification. The Company will deliver to such Major Investor (i) annual, and quarterly financial statements, and other information as determined by the Board of Directors; and (ii) thirty days prior to the end of each fiscal year, a comprehensive operating budget forecasting the Company’s revenues, expenses, and cash position on a month-to-month basis for the upcoming fiscal year[; and (iii) promptly following the end of each quarter an up-to-date capitalization table. A “Major Investor” means any Investor who purchases at least $200,000 of Series A Preferred. |
| [Right to Participate Pro Rata in Future Rounds](#_Frequency_of_Pro-Rata): | All Major Investors shall have a pro rata right, based on their percentage equity ownership in the Company (assuming the conversion of all outstanding Preferred Stock into Common Stock and the exercise of all options outstanding under the Company’s stock plans), to participate in subsequent issuances of equity securities of the Company (excluding those issuances listed at the end of the “Anti-dilution Provisions” section of this Term Sheet and shares issued in an IPO). In addition, should any Major Investor choose not to purchase its full pro rata share, the remaining Major Investors shall have the right to purchase the remaining pro rata shares. |
| Matters Requiring Preferred Director Approval: | So long as the holders of Series A Preferred are entitled to elect a Director, the Company will not, without Board approval, which approval must include the affirmative vote of at least one the then-seated Preferred Directors:  (i) make any loan or advance to, or own any stock or other securities of, any subsidiary or other corporation, partnership, or other entity unless it is wholly owned by the Company; (ii) make any loan or advance to any person, including, any employee or director, except advances and similar expenditures in the ordinary course of business or under the terms of an employee stock or option plan approved by the Board of Directors; (iii) guarantee any indebtedness except for trade accounts of the Company or any subsidiary arising in the ordinary course of business; (iv) make any investment inconsistent with any investment policy approved by the Board of Directors; (v) incur any aggregate indebtedness in excess of $100,000 that is not already included in a Board-approved budget, other than trade credit incurred in the ordinary course of business; (vi) hire, fire, or change the compensation of the executive officers, including approving any option grants; (vii) change the principal business of the Company, enter new lines of business, or exit the current line of business; (viii) sell, assign, license, pledge or encumber material technology or intellectual property, other than licenses granted in the ordinary course of business; or (ix) enter into any corporate strategic relationship involving the payment contribution or assignment by the Company or to the Company of assets greater than $100,000. |
| Non-Competition Agreements: | Founders and key employee will enter into a one year non-competition agreement in a form reasonably acceptable to the Investors. |
| Non-Disclosure, Non-Solicitation and Developments Agreement: | Each current, future and former founder, employee and consultant will enter into a non-disclosure, non-solicitation and proprietary rights assignment agreement in a form reasonably acceptable to the Investors. |
| Board Matters: | Each Board Committee shall include at least one Preferred Director. Company to reimburse nonemployee directors for reasonable out-of-pocket expenses incurred in connection with attending Board meeting. The Company will bind D&O insurance with a carrier and in an amount satisfactory to the Board of Directors. Company to enter into Indemnification Agreement with each Preferred Director with provisions benefitting their affiliated funds in form acceptable to such director. In the event the Company merges with another entity and is not the surviving entity, or transfers all of its assets, proper provisions shall be made so that successors of the Company assume the Company’s obligations with respect to indemnification of Directors. |
| [Employee Stock Options](#_Percentage_of_Employee): | All future employee options to vest as follows: 25% after one year, with remaining vesting monthly over next 36 months. |
| RIGHT OF FIRST REFUSAL/CO-SALE AGREEMENT | |
| [Right of First Refusal/ Right of Co-Sale (Take-Me-Along)](#_Frequency_of_Right): | Company first and Investors second will have a right of first refusal with respect to any shares of capital stock of the Company proposed to be transferred by current and futureemployees holding 1% or more of Company Common Stock (assuming conversion of Preferred Stock and whether then held or subject to the exercise of options), with a right of oversubscription for Investors of shares unsubscribed by the other Investors. Before any such person may sell Common Stock, he will give the Investors an opportunity to participate in such sale on a basis proportionate to the amount of securities held by the seller and those held by the participating Investors.[[5]](#footnote-6) |
| VOTING AGREEMENT | |
| [Board of Directors](#_Median_Number_of): | At the Closing, the Board of Directors shall consist of five members comprised of (i) [*name*] as [the representative designated by [\_\_\_\_], as the lead Investor, (ii) [*name*] as the representative designated by the remaining Investors, (iii) [*name*] as the representative designated by the Common Stockholders, (iv) the person then serving as the Chief Executive Officer of the Company, and (v) [\_\_\_] person(s) who are not employed by the Company and who are mutually acceptable [to the other directors]. |
| [Drag Along](#_Frequency_of_Drag): | Holders of Preferred Stock and all current and future holders of Common Stock (assuming conversion of Preferred Stock and whether then held or subject to the exercise of options) shall be required to enter into an agreement with the Investors that provides that such stockholders will vote their shares in favor of a Deemed Liquidation Event or transaction in which 50% or more of the voting power of the Company is transferred and which is approved by the Board of Directors and the Requisite Holders [and holders of a majority of the shares of Common Stock then held by employees of the Company (collectively with the Requisite Holders, the “**Electing Holders**”), so long as the liability of each stockholder in such transaction is several (and not joint) and does not exceed the stockholder’s pro rata portion of any claim and the consideration to be paid to the stockholders in such transaction will be allocated as if the consideration were the proceeds to be distributed to the Company’s stockholders in a liquidation under the Company’s then-current Charter, subject to customary limitations. |
| OTHER MATTERS | |
| Founders’ Stock: | Buyback right/vesting for [\_\_]% for first [12 months] after Closing; thereafter, right lapses in equal [monthly] increments over following [\_\_] months.][[6]](#footnote-7) |
|  |  |
| No-Shop/Confidentiality: | The Company and the Investors agree to work in good faith expeditiously towards the Closing. The Company and the founders agree that they will not, for a period of 45 days from the date these terms are accepted, take any action to solicit, initiate, encourage or assist the submission of any proposal, negotiation or offer from any person or entity other than the Investors relating to the sale or issuance, of any of the capital stock of the Company or the acquisition, sale, lease, license or other disposition of the Company or any material part of the stock or assets of the Company and shall notify the Investors promptly of any inquiries by any third parties in regards to the foregoing. The Company will not disclose the terms of this Term Sheet to any person other than employees, stockholders, members of the Board of Directors and the Company’s accountants and attorneys and other potential Investors acceptable to [\_\_\_\_\_\_\_\_\_], as lead Investor, without the written consent of the Investors (which shall not be unreasonably withheld, conditioned or delayed). |
| Expiration: | This Term Sheet expires on September 20, 2025 if not accepted by the Company by that date. |

EXECUTED this [\_\_] day of September, 2025

[Signature Blocks]

1. This term sheet is based on the Enhanced Model Term Sheet v3.0 published by the National Venture Capital Association. The entire model term sheet can be found at https://www.aumni.fund/resources/new-enhanced-model-term-sheet-v3-0 [↑](#footnote-ref-2)
2. Convertible instruments that convert at a discount may provide for a “shadow” or “subseries” of Preferred that is identical to the new round security except with respect to the amount received on liquidation, so that in a downside exit scenario all investors are at best only getting their money back. Be clear in the term sheet whether the shares issued on conversion are part of the pre-money capitalization or post-money capitalization. [↑](#footnote-ref-3)
3. See Sections 4.4.1(a)(v)-(viii) of the Model Certificate of Incorporation for additional exclusions; consider building into the term sheet to avoid later “negotiation”. [↑](#footnote-ref-4)
4. To be considered in order to address issues under the Defense Production Act of 1950 and related regulations (DPA). Relevant representations may include whether or not a company works with “critical technologies” within the meaning of the DPA, whether a company has operations or activities in particular sectors of the U.S. economy or in the U.S. at all, whether a Company stores or maintains certain types of data, whether an Investor is foreign, and whether an Investor has foreign government relationships, among others. [↑](#footnote-ref-5)
5. Certain exceptions are typically negotiated, *e.g.*, estate planning or *de minimis* transfers. Investors may also seek ROFR rights with respect to transfers by investors, in order to be able to have some control over the composition of the investor group. [↑](#footnote-ref-6)
6. Most founders’ shares are already subject to vesting; consider what level of vesting is appropriate and revise to marry up. Investors may also conclude not to change founder vesting. [↑](#footnote-ref-7)