

# It's All In The Terms—What To Prioritize In Angel Term Sheets

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An essential part of angel investing is setting and agreeing to the terms of the deal. Many angels recognize the importance of deal terms, but often wonder which components of the term sheet to prioritize. I'll reveal the answer, but first some background about term sheets.

A term sheet outlines everyone's intent for a deal. It is typically provided by the angel with help from their attorney. For this article I worked with angel investor [Katherine O'Neill](#) and attorneys, [Ben Straughan](#), Partner, and [Jim Carroll](#), Counsel, for the [Perkins Coie](#) Emerging Companies & Venture Capital practice. They also shared their insights in a recent Angel Capital Association webinar, [The Key Points of Term Sheets](#).

A well written term sheet is critical because it leads to a great contract and creates investor-entrepreneur alignment needed for a positive relationship because it delivers the returns everyone wants, assuming the company is successful. O'Neill, executive director of [Jumpstart New Jersey Angel Network](#), underscores this point: "This is the time you have the greatest opportunity to really control the main factors that allow you to make a good exit."

So what deal terms are most important to angel investors? Tapping their years of experience, Carroll and Straughan suggest five critical terms for a series seed preferred investment (otherwise known as a priced angel round):

**Pricing:** This represents the value of the company and helps determine how much of the company you will own. It is important to get the valuation of the company right in the beginning, which can be an [art with startups and early-stage companies](#) with few assets and short track records to build on.

**Participation Rights:** These define an angel's right to invest in future funding rounds, often providing the angel with a better chance of a good return. "Angels should focus on participation rights," Straughan said. "It allows you to double down by continuing your right to invest in future rounds."

**Board and Information Rights:** These rights outline whether you (or someone from the investing organization) will be on the board of directors or be an observer at company board meetings. They also determine the information you will receive from the company and how often you will receive it. For example by explicitly asking for quarterly financial statements and annual budgets, everyone can keep their eye on the ball on the status of the business while ensuring the company doesn't have onerous requirements (because these are documents that a company needs to produce anyway). Related to these, I like the idea of shareholders having the right to vote or at least have veto rights on key strategic issues such as selling or liquidating the company or developing entirely new lines of business.

**Liquidation Preference:** If the company is sold, these preferences define what preferred shareholders are paid e.g. X times the original purchase price before any other assets are paid common stockholders. 1X liquidation is normal for angels.

**Redemption Rights:** These rights can help angels to achieve liquidity by selling their shares back to the company if management wants to continue running the company but investors want out.

Although these five components provide an excellent guideline for what to prioritize, term sheets can quickly get more complex, and most include many other terms which are also important.

Most experts recommend that angels start with a standard term sheet to help simplify the process and to reduce legal fees. I've provided [sample term sheet examples in this article](#) and there are a wealth of other online resources. These are a few of my favorites:

- Angel Resource Institute – Their [term sheet resource center](#) includes both example documents and helpful insights. They also offer workshops on understanding term sheets.
- [FundingPost Venture Capital Glossary](#) – This is a glossary of financial terms for angels and entrepreneurs to understand.
- Hyde Park Angels – [How to Read a Term Sheet](#) (and several other great blog posts)
- [Investor IQ](#) – The Kauffman Foundation, ACA and ARI provide a wealth of video and materials on all facets of angel investing from experienced investors
- Seraf Investor – [Angel Fundamentals: Understanding Equity Deal Terms \(Introduction\)](#), and many other great and important insights into being an angel investor

Term sheets are critical and that is exactly why they can sometimes be overwhelming. Beyond these resources I always recommend talking to other angels and learning about new approaches, trends and ideas at [regional and national angel events](#). With resources like these there's no reason to sweat the terms on your own.