

Tool 3. The Annotated Pre-Seed SAFE

Field Guide 1: Term Sheets for the Early Rounds | Anchor Sample, Working Draft | Template

Operator's Takeaway

The post-money Simple Agreement for Future Equity (SAFE) fixes the investor's ownership on the day you sign and moves all stacking risk onto you. Every additional SAFE you sign afterward dilutes you and your co-founders, not the investors who came before. The number that matters is not this round's cap; it is your total SAFE overhang, the combined ownership all outstanding SAFEs will claim when they convert. Know that number before you sign the next one, not after.

The Tool

Below is a model post-money SAFE at market-standard terms for a pre-seed biotech raise: \$500,000 at a \$5,000,000 post-money valuation cap, no discount, with a pro rata side letter. The left column is the instrument. The right column is how to read it. This is an original model document for instruction; it is not legal advice, and any instrument you sign should be reviewed by qualified counsel.

Parties and instrument This Simple Agreement for Future Equity (SAFE) is entered into between [Company], a Delaware corporation, and [Investor], who is paying \$500,000 (the Purchase Amount) today in exchange for the right to certain shares of the Company's capital stock in the future.	<i>A SAFE is not debt and not equity. No interest accrues and no maturity date exists. The investor holds a contractual right to future shares and nothing else until a trigger event.</i>
Post-money valuation cap The Post-Money Valuation Cap is \$5,000,000. The Conversion Price equals the Post-Money Valuation Cap divided by the Company Capitalization, where Company Capitalization is measured immediately prior to the Equity	<i>This is the clause that sets ownership. \$500,000 divided by \$5,000,000 is 10.0 percent, locked at signing. Because the cap is post-money and the capitalization definition includes all other SAFEs, later SAFEs cannot dilute</i>

Financing and includes all converting SAFEs and the promised option pool.	<i>this investor. They dilute you.</i>
Discount rate None. The SAFE converts at the Conversion Price determined by the Post-Money Valuation Cap.	<i>Cap-only is the standard pre-seed structure. A cap plus a discount gives the investor the better of the two at conversion; if offered both, model both, because the discount can bite in a down-market priced round.</i>
Equity financing conversion Upon a bona fide Equity Financing with total proceeds of at least \$1,000,000, this SAFE automatically converts into shares of Safe Preferred Stock at the Conversion Price. Safe Preferred Stock carries the same rights as the new round's preferred, with a liquidation preference equal to the Purchase Amount.	<i>Conversion is automatic, not elective, once the threshold is met. Watch the threshold: set it too low and a small bridge round can force conversion; too high and the SAFE sits unconverted through a real financing.</i>
Liquidity event If the Company is acquired or completes an initial public offering before conversion, the investor receives the greater of (a) the Purchase Amount or (b) the amount payable on the number of shares of common stock equal to the Purchase Amount divided by the Liquidity Price.	<i>The greater-of structure means the investor never does worse than money back in a sale, and participates in the upside if the exit values the company above the cap. In an early acqui-hire at a low price, SAFE holders can absorb most of the consideration.</i>
Dissolution If the Company dissolves, the Purchase Amount is payable to the investor immediately prior to, and senior to, any distribution to holders of common stock.	<i>SAFE holders stand ahead of founders and employees in a wind-down, though behind actual creditors. In a true failure there is usually little left; this clause matters most in a soft landing.</i>
Most favored nation (MFN) None. This SAFE does not contain a most favored nation (MFN) provision.	<i>An MFN clause would let this investor adopt the terms of any better SAFE you issue later. Its absence preserves your flexibility</i>

	<i>to raise a later tranche at a higher cap without upgrading earlier holders. If an investor asks for MFN, price that flexibility.</i>
Pro rata side letter By separate letter, the Company grants the investor the right to purchase its pro rata share of the Safe Preferred Stock issued in the Equity Financing, up to the amount required to maintain its as-converted ownership.	<i>Reasonable for a lead check, expensive if granted to everyone. Twenty small holders each holding pro rata rights can crowd the round you most need institutional capital in. Grant it deliberately, not by default.</i>
Representations The Company represents it is duly organized and authorized to issue this SAFE. The investor represents it is an accredited investor under Regulation D (Reg D) and is purchasing for its own account, not for resale.	<i>The accreditation representation is what keeps this issuance inside the Reg D exemption. If you are running a Regulation Crowdfunding (Reg CF) raise in parallel, integration rules apply; see Tool 7.</i>
Governing law and amendment This SAFE is governed by Delaware law and may be amended only in writing signed by both parties. SAFEs of the same series may be amended by holders of a majority of the aggregate Purchase Amounts.	<i>Majority amendment across a series is standard and useful: it lets you clean up terms at conversion without chasing every signature. It also means a majority can amend terms a minority holder relied on.</i>

The math the cap locks in

A post-money cap converts the Purchase Amount directly into an ownership floor: Purchase Amount divided by Post-Money Valuation Cap. The worked stack below shows why overhang, not any single cap, is the number to manage.

- SAFE 1: \$500,000 at a \$5,000,000 post-money cap equals 10.00 percent.
- SAFE 2: \$250,000 at a \$6,000,000 post-money cap equals 4.17 percent.
- SAFE 3: \$250,000 at a \$6,000,000 post-money cap equals 4.17 percent.

- Total SAFE overhang: 18.34 percent of the company, committed before any priced round, any option pool top-up, or any new investor. All of it comes out of the founders' side of the table.

Run your own stack in the companion workbook, the Early-Round Cap Table and Dilution Modeler, before signing any new instrument.

For Investors and Advisors

An investor reading this term sheet sees a clean, standard instrument, which is itself a signal: bespoke SAFEs suggest either inexperience or something to hide. The post-money cap tells the investor exactly what they own, so the negotiation is really a negotiation about one number. The absence of a most favored nation (MFN) clause tells them the founder understands later tranches may price higher. The pro rata side letter tells them whether the founder is protecting the follow-on for people who earn it. An advisor stress-testing the founder's position asks one question: what is total overhang across every outstanding SAFE, and does the founder know the answer without looking it up.

Where This Leaves You

If you can state your total SAFE overhang, defend the cap with a cost-of-capital comparison (Tool 2), and explain why each side letter exists, you are ready to sign. If any of those three is fuzzy, stop. The next action is mechanical: enter every outstanding instrument into the modeler, read the overhang line, and decide whether this SAFE is the right next dollar or whether the ladder (Tool 1) says a different instrument, a Regulation Crowdfunding (Reg CF) tranche or a Regulation D (Reg D) 506(c) raise, buys the same runway for less of the company.