

The 10 Term Sheet Clauses That Destroy Founder Equity

What they say, what they actually cost you at exit, and the one question to ask before you sign each of them.

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Most founders read a term sheet the way they read software terms of service: quickly, under pressure, trusting that "standard" means "safe." Then, years later — in a diligence data room or at the closing table — they discover what those paragraphs were quietly doing to their ownership the whole time.

I have modeled cap tables and liquidation waterfalls for founders on both coasts, and taken companies through public-market scrutiny as an IPO specialist. The pattern is always the same: **the damage was signed long before it was felt.** Every clause below is one I have seen cost a real founder real money. Each entry gives you the plain-language meaning, the real cost, and the exact question to put to the investor — or to your advisor — before signing.

A TRUE STORY, ANONYMIZED

A Series A founder came to me with a "clean" cap table. We modeled her liquidation waterfall at five exit scenarios — and found that a participating-preferred clause from her seed round, signed 18 months earlier, cut her effective ownership by **12 percentage points** at her most likely exit value. Because we caught it before the A round closed, we negotiated participation out as part of the new terms. She kept those 12 points.

"I did not know what I had signed until Marina showed me."

The ten clauses

01 Participating preferred

What it says: the investor gets their money back first, *and then also* takes their ownership percentage of everything that remains. Paid twice from the same exit.

What it costs: at mid-range exits — where most good companies actually land — routinely ten or more points of your effective ownership. The damage is invisible on the cap table; it lives only in the waterfall.

Ask: "Is this participating or non-participating — and can we see my personal proceeds modeled at \$10M, \$50M, and \$100M exits?"

02 Liquidation preference above 1×

What it says: the investor receives 1.5×, 2×, or 3× their money before anyone else sees a dollar.

What it costs: at anything short of a home-run exit, the multiple eats the common shareholders' layer first — that's you and your team.

Ask: "What justifies more than the market-standard 1× non-participating — and what would remove it?"

03 Full-ratchet anti-dilution

What it says: if you ever raise at a lower price, the investor's shares reprice as if they had invested at that lower price — for their entire stake.

What it costs: a single down round can transfer a brutal share of the company from founders to earlier investors. The standard alternative (broad-based weighted average) exists precisely because full ratchet is punitive.

Ask: "Will you accept broad-based weighted average, like the rest of the market?"

04 The option-pool shuffle

What it says: the employee option pool is created or expanded *before* the investment, inside the pre-money valuation.

What it costs: the entire pool dilutes existing shareholders only — the investor's price already accounts for it. A "\$10M pre-money" with a mandated 15% pool is not a \$10M valuation for you.

Ask: "What is my effective pre-money after the pool — and can the pool sit post-money instead?"

05 Cumulative dividends

What it says: preferred shares accrue a dividend (often 6–8% annually) that compounds silently and is paid out at exit, on top of the preference.

What it costs: after five or six years, the accrued dividend can add 40–60% to what must be paid to investors before common sees anything.

Ask: "Are dividends cumulative or only if declared — and what does the accrual look like at year six?"

06 Redemption rights

What it says: after a set period, investors can demand the company buy their shares back — in cash.

What it costs: a forced-liquidity time bomb. Companies rarely have that cash sitting idle; the clause becomes leverage to force a sale on the investor's timeline, not yours.

Ask: "Under what realistic scenario would you exercise this — and can we remove or extend it?"

07 Overreaching protective provisions

What it says: a list of company actions requiring investor approval — hiring, budgets, new products, salaries above a threshold, any new financing.

What it costs: operational veto power. Reasonable provisions protect the investment; overreaching ones make every significant decision a negotiation.

Ask: "Which of these protect your investment, and which manage my company? The second list needs to shrink."

08 Board control flip

What it says: a board structure — often 2 investors, 1 founder, 2 "independents" the investors effectively choose — that quietly moves control before ownership does.

What it costs: the ability to be removed from your own company while still holding a majority of its shares. Ownership and control are separate negotiations; founders routinely win the first and lose the second.

Ask: "Walk me through exactly who appoints each seat — and who appoints the independents."

09 Founder re-vesting

What it says: your already-earned shares go back onto a vesting schedule as a condition of the round.

What it costs: equity you owned outright becomes contingent again — and if the board (see clause 08) parts ways with you in year one, the unvested portion is gone.

Ask: "How much of my vested equity re-vests, over how long, and what acceleration do I get on termination or acquisition?" (Double-trigger acceleration is the floor to fight for.)

10 Low-threshold drag-along

What it says: if a defined majority approves a sale, everyone must sell — on the same terms, no objection possible.

What it costs: combined with preferences and a multiple, a drag-along can force you into an exit where the waterfall leaves common with almost nothing — legally, and with your own signature pre-authorizing it.

Ask: "Who exactly can trigger the drag, and does it require board *and* common approval — or just preferred?"

The pattern behind all ten

Not one of these clauses is illegal, unusual, or even necessarily wrong — every one is "standard" for someone. The question is who each one is standard *for*. Investors negotiate term sheets for a living; most founders see three or four in a lifetime, always under time pressure, always told the terms are normal. That asymmetry — not bad faith — is where equity quietly disappears.

The counter-move is not aggression. It is **modeling**: your personal proceeds, at five exit values, under the exact terms on the table, before you sign. Numbers change negotiations in a way arguments never do.

What this guide deliberately doesn't include

The negotiation playbook — which clauses to trade against each other, what this quarter's market standard actually is, the scripts that get participation removed without burning the relationship, and the waterfall model itself. That work is engagement-level, and it is exactly what I do with founders before they sign.

Raising in the next 12 months? Send me your situation before you sign anything — I review every submission personally and respond within 24 hours: amiviadvisory.com/work-with-me · or book a 15-minute call — no pitch, an honest read.

About Marina Viera. Founder of Amivi Advisory — fractional CxO for companies from startup to \$50M revenue. Twenty years building businesses from zero inside Johnson & Johnson, Nike, and Brown-Forman; stock-exchange IPO specialist; financial project manager on a €1B infrastructure build; founder of Nascence AI. Finance, fundraising and term sheets, operations, technology, and pricing — one advisor, fully in your corner. amiviadvisory.com

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