GLOBAL CAPITAL NETWORK

Startup Funding Glossary Cheat Sheet

339 terms every founder and angel investor should know

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Terms are grouped by topic and listed A to Z within each section.
Full definitions, examples and related articles are on the GCN glossary:
globalcapitalnetwork.com/glossary

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1. Fundraising Stages

The rounds a startup moves through, from first money to late-stage growth. (19 terms)

Angel Round A funding round comprised primarily of angel investors, typically occurring at the pre-seed or seed stage before institutional venture capital gets involved.

Bootstrapping Building and growing a company using personal savings, revenue, and minimal external capital, rather than raising money from outside investors.

Bridge Round An interim round of funding raised between two priced rounds to extend a company's runway, often structured as a convertible note or SAFE ahead of a larger future raise.

Cram Down Round An aggressively low-valuation down round that heavily dilutes existing shareholders, often used when a company has few alternatives and existing investors must accept unfavorable terms to keep the company funded.

Decacorn A privately held startup valued at $10 billion or more, an extension of the "unicorn" designation for an even rarer tier of company.

Down Round A funding round in which a company raises capital at a lower valuation than its previous round, typically diluting existing shareholders and signaling reduced investor confidence or a tougher fundraising market.

Follow-On Investment Additional capital an existing investor puts into a company in a later funding round, often to maintain ownership percentage or double down on a strong performer.

Friends and Family Round An early, informal round of funding raised from personal connections rather than professional investors, typically used to get a company off the ground before institutional fundraising.

Hard Cap The absolute maximum amount of capital a fund or funding round will accept, beyond which no further investor commitments will be taken regardless of demand.

Milestone-Based Funding A financing structure in which capital is released in tranches as a company hits predefined operational or product milestones, reducing investor risk on unproven ventures.

Oversubscribed Round A funding round in which investor demand exceeds the amount of capital the company intended to raise, often allowing founders to be more selective about who joins the cap table.

Pre-Seed Funding The earliest stage of startup funding, typically used to validate an idea, build an MVP, and reach initial traction, often raised from founders, friends and family, or angel investors.

Seed Funding The first significant round of institutional funding, used to build out a product and reach product-market fit, typically raised from angels, seed-stage VCs, or early-stage funds.

Series A The first major venture capital round following seed funding, typically raised once a company has demonstrated product-market fit and a repeatable business model, used to scale operations and go-to-market.

Series B A funding round raised to scale a proven business model further, typically funding team expansion, market expansion, and product development beyond the initial core offering.

Series C A later-stage funding round typically used to scale a already-successful company further, fund acquisitions, or prepare for an IPO, often involving private equity firms or hedge funds alongside VCs.

Tranche A portion of a larger funding round or debt facility released or drawn down at a specific time or upon meeting certain conditions.

Undersubscribed Round A funding round in which investor demand falls short of the amount a company sought to raise, sometimes requiring a lower target, extended timeline, or adjusted terms.

Unicorn A privately held startup valued at $1 billion or more, a milestone often reached through a late-stage venture round rather than public trading.

2. Fundraising Instruments

The securities and contracts used to raise capital. (32 terms)

Conversion Discount A reduced price at which a convertible note or SAFE converts into equity relative to the price paid by new investors in the triggering round, rewarding early investors for their added risk.

Convertible Bond A corporate bond that can be converted into a predetermined number of shares of the issuing company's stock, combining fixed-income features with equity upside potential.

Convertible Note A short-term debt instrument that converts into equity at a future financing round, typically carrying an interest rate and maturity date, along with a valuation cap and/or discount for early investors.

Crowdfunding Portal An SEC-registered online platform through which companies can legally offer securities to the public under Regulation Crowdfunding rules.

Debt Covenant A condition in a loan agreement requiring or restricting certain borrower actions, such as maintaining minimum cash reserves or limiting additional debt, used by lenders to manage risk.

Debt Financing Raising capital by borrowing money to be repaid with interest, rather than by selling equity, allowing founders to retain full ownership but adding a fixed repayment obligation.

Direct Lending A private credit strategy in which non-bank lenders, such as credit funds, provide loans directly to companies, bypassing traditional bank underwriting.

Equity Crowdfunding A method of raising capital from a large number of small investors, typically via an online platform, in exchange for equity, regulated under securities exemptions such as Reg CF.

Equity Financing Raising capital by selling shares of ownership in the company, as opposed to borrowing money, giving investors a stake in future growth and returns.

Grant Funding Non-repayable capital awarded by a government agency, foundation, or institution to support a company's research or mission, typically without requiring equity in return.

JOBS Act The Jumpstart Our Business Startups Act, a 2012 U.S. law that eased securities regulations for startups, enabling equity crowdfunding and expanding who can invest in private companies.

Junior Debt Debt that ranks behind senior debt in priority of repayment if a company is liquidated, typically carrying higher interest rates to compensate lenders for the added risk.

Kicker An additional benefit, such as warrants or equity, attached to a debt instrument to sweeten the deal and give the lender extra upside beyond the stated interest rate.

Loan-to-Value Ratio A ratio comparing the size of a loan to the value of the asset securing it, used by lenders to assess risk when extending venture debt or asset-backed financing.

Mezzanine Financing A hybrid form of capital combining debt and equity features, typically used in later-stage or buyout deals, ranking below senior debt but above equity in repayment priority.

MFN Clause A most favored nation clause, common in SAFEs and convertible notes, that lets an investor adopt better terms the company later gives to other investors in the same type of

instrument.

Non-Dilutive Funding Capital raised without giving up equity, such as grants, revenue-based financing, or venture debt, allowing founders to fund growth while preserving ownership.

Priced Equity Round A financing round in which a company's valuation is explicitly set and shares are issued directly at that price, as opposed to a convertible instrument like a SAFE or note.

Regulation A+ (Reg A+) An SEC exemption sometimes called a "mini-IPO," allowing companies to raise up to $75 million from both accredited and non-accredited investors, with lighter reporting requirements than a full public offering.

Regulation CF (Reg CF) The SEC's equity crowdfunding exemption, allowing companies to raise up to $5 million annually from the general public through registered crowdfunding portals.

Regulation D (Reg D) The SEC framework letting companies raise capital through private securities offerings without registering with the SEC, provided they meet a specific exemption's conditions.

Regulation S An SEC exemption governing securities offerings made entirely outside the United States to non-U.S. persons, exempting them from U.S. registration requirements.

Revenue-Based Financing A form of non-dilutive funding in which a company repays an investor as a percentage of ongoing revenue, rather than through equity or fixed loan payments.

Rule 504 A Reg D exemption permitting companies to raise up to $10 million in a 12-month period with lighter disclosure requirements, commonly used for smaller private raises.

Rule 506(b) A Reg D exemption allowing a company to raise unlimited capital from accredited investors plus up to 35 sophisticated non-accredited investors, but prohibiting any general solicitation or advertising. Part of our map of US fundraising exemptions.

Rule 506(c) A Reg D exemption allowing companies to publicly advertise and solicit an offering, provided every investor is verified as accredited through documented proof rather than self-certification. Part of our map of US fundraising exemptions.

SAFE Note A Simple Agreement for Future Equity: an investment instrument that converts into equity at a future priced round, without the interest rate or maturity date of a convertible note.

SBA 504 Loan An SBA loan program specifically for financing major fixed assets like real estate or equipment, often paired with acquisition financing.

SBA 7(a) Loan The U.S. Small Business Administration's primary loan program, frequently used to finance small business acquisitions in search-fund and entrepreneurship-through-acquisition deals.

Uncapped Note A convertible note or SAFE with no valuation cap, meaning it converts based solely on the terms of the future priced round, offering the investor less downside protection.

Valuation Cap The maximum company valuation at which a convertible note or SAFE will convert into equity, protecting early investors from excessive dilution if the company's value rises sharply.

Venture Debt A loan extended to venture-backed startups, typically used to extend runway or fund growth without additional equity dilution, often paired with warrants for the lender.

3. Fundraising Process

How a round is run, from first meeting to closing. (46 terms)

100-Day Plan A structured roadmap founders present to investors outlining execution priorities, milestones, and resource allocation for a company's first three months after closing a round, used to demonstrate execution discipline.

Accelerator A fixed-term program that provides early-stage startups with mentorship, resources, and often a small investment in exchange for equity, typically culminating in a demo day pitch to investors.

Accredited Investor Verification The process of confirming an investor meets SEC accredited investor criteria, required for offerings under Rule 506(c), typically via income/net worth documentation or third-party verification services. Start yours through investor registration.

Annual Report A comprehensive yearly summary of a company's or fund's financial performance, operations, and outlook, shared with shareholders, limited partners, or regulators.

Anti-Money Laundering (AML) Regulations and procedures designed to prevent illegally obtained funds from being disguised as legitimate income, requiring funds and financial institutions to screen and monitor investors and transactions.

Bad Actor Disqualification An SEC rule barring companies and individuals with certain securities law violations or criminal convictions from participating in Rule 506 private placement offerings.

Competitive Moat A sustainable advantage that protects a company from competitors, such as network effects, switching costs, proprietary technology, or brand strength, closely scrutinized by investors during due diligence.

Confidential Information Memorandum (CIM) A detailed document prepared by a company or its advisors for prospective buyers or investors in an M&A process, covering financials, operations, and market position under a signed confidentiality agreement.

Copyright A legal protection granting the creator of an original work, such as software or content, exclusive rights to reproduce, distribute, and adapt it, an asset investors evaluate as part of IP due diligence.

Customer Discovery The process of testing assumptions about customer problems and needs through direct conversations and research, a foundational step in the Lean Startup and customer development methodology.

Data Room A secure, organized repository of a company's key documents (financials, legal agreements, cap table, IP filings) shared with investors during due diligence.

Deal Flow The rate and volume of investment opportunities an investor or fund sees, a key input to how selective they can be and how strong their eventual portfolio may become.

Demo Day An event at the end of an accelerator or incubator program where participating startups pitch to a room of investors, often the culmination of a cohort's fundraising push.

Dodd-Frank Act A 2010 U.S. law enacted after the financial crisis that overhauled financial regulation, including new registration and reporting requirements for private fund advisers.

Due Diligence The investigative process an investor undertakes before finalizing an investment, reviewing a company's financials, legal standing, market, team, and metrics to assess risk and validate claims.

Elevator Pitch A brief, compelling summary of a business idea, typically 30-60 seconds long, designed to quickly convey what a company does and why it matters to an investor or partner.

Financial Model A spreadsheet-based projection of a company's future revenue, expenses, and cash flow, used by founders to plan and by investors to evaluate a startup's growth assumptions.

First-Mover Advantage The competitive edge a company can gain by being the first to enter a market, such as brand recognition, customer loyalty, or control of key resources, before competitors arrive.

Form C The disclosure document a company must file with the SEC to raise capital under Regulation CF equity crowdfunding.

Form D The notice filing a company submits to the SEC shortly after making its first sale of securities under a Regulation D exemption.

GAAP Generally Accepted Accounting Principles: the standard framework of accounting rules and practices used to prepare financial statements in the United States.

Human Capital The collective skills, knowledge, and experience of a company's people, often cited by investors as a key asset and risk factor in early-stage companies with few other tangible assets.

Incubator A program that supports very early-stage startups with mentorship, resources, and sometimes small amounts of capital, typically before a company has a finished product.

Intellectual Property (IP) Legally protectable creations such as patents, trademarks, copyrights, and trade secrets, often a core asset investors evaluate when assessing a startup's defensibility.

Investor Update A regular (often monthly) communication founders send to existing investors summarizing progress, key metrics, challenges, and asks, used to maintain investor relationships between funding rounds.

Know Your Customer (KYC) A regulatory process requiring financial institutions and funds to verify the identity of investors and clients, used to prevent fraud, money laundering, and other financial crimes.

Legal Opinion A formal written statement from a company's counsel confirming certain legal facts, such as valid share issuance, often required by investors before closing a deal.

Letter of Intent (LOI) A preliminary, often non-binding document outlining the intended terms of a deal, such as an acquisition, before a definitive agreement is drafted and signed.

Memorandum of Understanding (MOU) A document expressing a preliminary, generally non-binding agreement between parties on the broad terms of a future deal or partnership, before formal contracts are drafted.

Non-Disclosure Agreement (NDA) A legal contract in which parties agree not to share confidential information disclosed during discussions, commonly signed before detailed fundraising or due diligence conversations.

Offer Letter A formal document extended to a new employee outlining compensation, equity, and terms of employment, distinct from an investment term sheet.

Pitch Deck A concise slide presentation founders use to communicate their business opportunity to investors, typically covering the problem, solution, market, traction, team, and ask.

Qualified Institutional Buyer (QIB) An SEC-defined category of large institutional investors, such as pension funds or insurance companies, permitted to trade certain unregistered securities not available to the general public.

Quarterly Report A regular update, often shared with investors or the board, summarizing a company's financial performance and key metrics over the preceding three months.

Rule 10b-5 The SEC's core antifraud rule, prohibiting material misrepresentation or omission in connection with the purchase or sale of any security, public or private.

Rule 144 The SEC rule governing how and when holders of restricted or control securities in a private or newly public company can resell them into the public market.

Rule 144A An SEC safe harbor allowing large institutional investors ("qualified institutional buyers") to trade unregistered securities among themselves without a full public registration.

Section 12(g) The provision requiring a private company to begin public SEC reporting once it crosses set thresholds for total assets and number of shareholders of record.

Total Addressable Market (TAM) The total revenue opportunity available for a product or service if a company achieved 100% market share, a key figure investors use to gauge a startup's growth ceiling.

Traction Measurable evidence that a startup's product or business model is gaining momentum, such as user growth, revenue, or engagement, used to validate potential to investors.

Trade Secret Confidential business information, such as a formula or process, that provides a competitive advantage and is protected by law as long as it remains undisclosed.

Unregistered Securities Securities sold under an exemption from SEC registration requirements, such as private placements to accredited investors, common in early-stage startup fundraising.

Use of Proceeds A description of how a company plans to spend the capital it raises, often requested by investors to ensure funds will be allocated toward growth rather than unrelated expenses.

Value Proposition A clear statement of the specific benefit a product or service delivers to customers and why it's better than available alternatives, central to a company's pitch and positioning.

Wire Transfer An electronic transfer of funds directly between bank accounts, the standard method for delivering investment capital once a funding round closes.

XBRL eXtensible Business Reporting Language, a standardized data format used for filing financial statements with regulators like the SEC, relevant to companies approaching an IPO or public reporting obligations.

4. Investor Types

Who invests in startups and venture funds, and how funds are structured. (51 terms)

1517 Fund A pre-seed venture fund investing specifically in founders who dropped out of or skipped traditional college paths, betting on non-traditional talent.

401(k) An employer-sponsored retirement account, increasingly relevant to private investing as more plans add access to private equity and venture allocations.

500 Startups (500 Global) A global venture capital firm and accelerator, now operating as 500 Global, that provides seed funding, mentorship, and network access to early-stage companies and has invested across thousands of startups worldwide.

645 Ventures An early-stage VC firm focused on backing exceptional founders building category-defining companies, with an emphasis on markets and talent often overlooked by traditional venture capital.

8VC A San Francisco-based venture capital firm investing from seed to growth stage, with a focus on companies rebuilding foundational industries like healthcare, logistics, and government.

Accredited Investor An individual or entity that meets SEC-defined income, net worth, or professional criteria, qualifying them to invest in unregistered securities such as startup equity or private funds.

Advisory Committee A group of limited partner representatives that advises a fund's general partner on conflicts of interest, valuations, and other governance matters, without managing day-to-day investment decisions.

Alternative Investment An asset class outside traditional stocks, bonds, and cash, such as private equity, venture capital, hedge funds, real estate, or private credit, typically less liquid but offering diversification.

Angel Group A formal organization of angel investors who meet regularly to review deals, conduct due diligence collectively, and invest together, giving individual members access to larger and more vetted deal flow.

Angel Investor An individual who provides capital to early-stage startups, typically in exchange for equity, usually investing their own money at the pre-seed or seed stage before institutional VCs get involved.

Angel Syndicate A group of angel investors who pool capital and due diligence to invest together in a deal, often led by an experienced lead angel who negotiates terms on the group's behalf.

Asset Allocation The strategy of dividing an investment portfolio among different asset classes, such as equities, fixed income, and alternatives, to balance risk and expected return.

B Corporation A certification awarded to companies that meet verified standards of social and environmental performance, accountability, and transparency, distinct from the legal "benefit corporation" structure some states offer.

Blind Pool Fund An investment fund that raises capital from limited partners before identifying specific target investments, relying on the general partner's track record and stated strategy rather than a defined deal pipeline.

Capital Call A notice from a fund's general partner requiring limited partners to transfer part of their committed capital, usually within a set number of business days, to fund investments or fees.

Co-Investment An arrangement in which limited partners invest directly alongside a fund in a specific deal, in addition to their regular fund commitment, often with reduced or no fees.

Commitment Period The window, typically the first several years of a fund's life, during which a general partner can call capital from limited partners to make new investments, after which the fund shifts to managing existing holdings.

Committed Capital The total amount of capital a limited partner has pledged to a fund, which may be called incrementally over the fund's commitment period rather than paid in all at once.

Corporate Venture Capital (CVC) Venture investing done by a corporation's own investment arm, typically seeking both financial returns and strategic value such as access to new technology or markets.

Crossover Fund An investment fund that invests in both private and public companies, often taking late-stage private positions ahead of an anticipated IPO and continuing to hold shares afterward.

Decentralized Autonomous Organization (DAO) An organization governed by rules encoded in smart contracts and member voting rather than a traditional management hierarchy, used in some crypto and digital-asset investment structures.

Decentralized Finance (DeFi) Financial services such as lending, trading, and borrowing built on blockchain networks that operate without traditional intermediaries like banks or brokerages.

Defined Benefit Plan A pension plan that guarantees a specific retirement payout based on salary and tenure, funded and managed by the employer, often a major limited partner category for private funds.

Digital Asset Any asset that exists in digital form and carries value, including cryptocurrencies, tokens, and other blockchain-based instruments increasingly held alongside traditional investments.

Distressed Debt Debt securities of companies experiencing financial or operational distress, trading at a significant discount to face value and offering high risk alongside potential outsized returns.

Diversification The practice of spreading investments across different assets, sectors, or strategies to reduce the risk that any single investment's poor performance significantly harms overall returns.

Donor-Advised Fund A charitable giving vehicle that allows a donor to contribute assets, receive an immediate tax deduction, and recommend grants to charities over time, sometimes used by family offices for philanthropic planning.

Dry Powder Capital that a fund has committed from limited partners but has not yet deployed into investments, available to be called on for new deals or follow-on rounds.

Dynasty Trust A long-term or perpetual trust structure used by family offices and high-net-worth families to pass wealth across multiple generations while minimizing estate and gift taxes.

Family Office A private wealth management firm that manages investments and financial affairs for a single ultra-high-net-worth family, often investing directly in startups and funds alongside traditional asset classes.

Founder An individual who starts a company, typically holding common stock and taking on the initial risk and responsibility of building the business from the ground up.

Fund of Funds An investment vehicle that invests in a portfolio of other funds (such as multiple VC or PE funds) rather than directly in operating companies, providing diversification across managers and strategies.

General Partner (GP) The individual or firm responsible for managing a fund's investments and operations, making investment decisions on behalf of the fund's limited partners.

Growth Equity Investment capital provided to established, revenue-generating companies to fund expansion, sitting between venture capital and traditional private equity in both risk profile and check size.

Hedge Fund A pooled investment fund that uses a range of strategies, including leverage, derivatives, and short-selling, to generate returns for accredited or institutional investors, typically with fewer regulatory constraints than mutual funds.

High-Net-Worth Individual (HNWI) A person with significant investable assets, often used as a general term for wealthy individual investors who may participate in angel investing or private funds.

Impact Investing An investment approach that seeks measurable social or environmental benefit alongside financial return, spanning sectors from clean energy to financial inclusion.

Institutional Investor An organization, such as a pension fund, endowment, or insurance company, that pools and invests large sums of money on behalf of others, often as a limited partner in venture and private equity funds.

Joint Venture (JV) A business arrangement in which two or more companies pool resources to pursue a specific project or goal while remaining independent entities, sharing both risk and reward.

Keiretsu A Japanese business model in which a group of companies maintain close ties through cross-shareholdings and shared suppliers or lenders, sometimes referenced as a model for corporate venture networks.

Lead Investor The investor who negotiates the primary terms of a funding round on behalf of a syndicate, typically committing the largest check and often taking a board seat.

Limited Partner (LP) An investor who contributes capital to a fund but has no role in its day-to-day management or investment decisions, and whose liability is limited to the amount invested.

Management Fee An annual fee, typically 1.5-2.5% of committed capital, that limited partners pay a fund's general partner to cover operating costs, separate from any

performance-based carried interest.

Private Equity (PE) Capital invested directly into private companies, often mature businesses, typically involving a controlling or significant ownership stake and active operational involvement to drive returns.

Risk Capital Funds invested in ventures with a meaningful chance of loss in exchange for the potential of outsized returns, a general term describing venture and angel investment.

Sovereign Wealth Fund A state-owned investment fund that deploys a country's reserves (often from commodity revenue or trade surpluses) into a global portfolio of assets, including private equity and venture capital.

Syndicate A group of investors who come together to jointly fund a deal, sharing due diligence and access to an opportunity that might otherwise exceed any single investor's check size.

Trust Fund A legal arrangement in which assets are held and managed by a trustee on behalf of a beneficiary, sometimes used by family offices to structure long-term investments.

Venture Capital (VC) Institutional capital invested in high-growth-potential startups in exchange for equity, typically deployed by professional firms managing pooled funds from limited partners.

Vintage Year The year a venture or private equity fund makes its first investment, used to compare fund performance against other funds raised in the same market conditions.

Zombie Fund A venture or private equity fund that has passed its planned investment period with little prospect of new gains, typically holding a few illiquid positions while collecting reduced fees rather than actively deploying capital.

5. Deal Terms and Cap Table

The terms that decide ownership, control and economics. (77 terms)

1x Liquidation Preference A deal term giving preferred shareholders the right to be paid back their full investment before common shareholders receive anything in an exit or liquidation.

2 and 20 (Two and Twenty) The classic fee structure for venture and private equity funds: a 2% annual management fee on committed capital, plus 20% of profits (carried interest) above a return threshold.

409A Valuation An independent appraisal of a private company's common stock fair market value, required by the IRS to set compliant stock option exercise prices and avoid adverse tax treatment for employees.

Advisory Shares Equity granted to advisors in exchange for guidance and expertise rather than cash compensation, typically vesting over a shorter period than founder or employee equity.

Anti-Dilution Provision A contractual protection that adjusts an investor's conversion price if the company later raises capital at a lower valuation, preserving the investor's effective ownership percentage.

Arm's Length Transaction A deal negotiated between two independent parties acting in their own self-interest, with no special relationship or conflict of interest influencing the terms.

Articles of Incorporation The foundational legal document filed with a state to formally create a corporation, establishing its name, purpose, share structure, and other basic governance details.

Authorized Shares The maximum number of shares a company's corporate charter permits it to issue, which may be greater than the number of shares actually outstanding at any given time.

Board Observer A non-voting participant in board meetings, often granted to an investor who did not secure a full board seat, allowing visibility into governance without formal voting rights.

Board Seat A formal position on a company's board of directors, often granted to lead investors as part of a financing round, giving them voting rights on major company decisions.

Cap Table A capitalization table: a record of a company's ownership structure, listing all shareholders, their equity stakes, and the types of securities they hold (common stock, preferred stock, options, etc.).

Clawback A provision allowing a fund's limited partners to reclaim excess profit distributions previously paid to the general partner if later losses reduce overall fund performance below agreed thresholds.

Co-Sale Agreement An agreement giving investors the right to sell a proportional share of their own stock alongside a founder or major holder who sells shares to a third party, on the same terms.

Common Stock The standard class of company ownership typically held by founders and employees, ranking behind preferred stock in priority for dividends and liquidation proceeds.

Control Securities Shares held by an officer, director, or major shareholder of a company, subject to additional resale restrictions under securities law compared to shares held by ordinary investors.

Conversion Rights The contractual right of preferred shareholders to convert their shares into common stock, typically exercised voluntarily or automatically upon an IPO or qualifying event.

Convertible Preferred Stock Preferred stock that can be converted into common stock at the holder's option, typically at a set ratio, combining preferred protections with upside participation.

Corporate Bylaws The internal rules a company's board and shareholders adopt to govern its operations, including how meetings are run, officers are elected, and decisions are made.

Deal Structure The specific combination of instrument, valuation, rights, and terms that make up an investment or acquisition, shaped through negotiation between founders, investors, and their counsel.

Deferred Compensation Earned compensation, such as a bonus or salary portion, that an employee agrees to receive at a later date rather than immediately, often for tax planning purposes.

Definitive Agreement The final, legally binding contract that closes a financing or acquisition, superseding the non-binding term sheet or letter of intent that preceded it.

Delaware Incorporation The common practice of incorporating a startup in Delaware regardless of where it operates, due to the state's well-developed corporate law, specialized courts, and investor familiarity.

Double Trigger Acceleration A vesting acceleration provision that requires two events, typically an acquisition and a subsequent termination without cause, before an employee's unvested equity accelerates.

Drag-Along Rights A provision allowing majority shareholders to force minority shareholders to join in the sale of a company, ensuring a clean exit when a majority approves an acquisition.

Duty of Care A fiduciary obligation requiring board members and officers to make informed, reasonably diligent decisions in the best interest of the company.

Duty of Loyalty A fiduciary obligation requiring board members and officers to act in the company's best interest rather than their own, avoiding conflicts of interest and self-dealing.

Employee Stock Ownership Plan (ESOP) A benefit plan that gives employees ownership interest in the company, typically

through shares allocated over time, aligning employee incentives with company performance.

Equity Dilution The reduction in existing shareholders' ownership percentage that occurs when a company issues new shares, such as during a new funding round or option pool expansion.

Fiduciary Duty The legal obligation of a board member, officer, or fund manager to act in the best interests of shareholders or limited partners, rather than their own personal interests.

Full Ratchet The strictest form of anti-dilution protection, which resets an investor's conversion price to the lowest price of any later down round, regardless of how few shares are sold at that price.

Fully Diluted Shares The total number of shares that would be outstanding if every convertible security, option, and warrant were exercised or converted, used to calculate true ownership percentages.

Golden Parachute A large severance package promised to a company's top executives if they are terminated following a change in control, such as an acquisition.

Governance Rights Contractual rights that give investors influence over major company decisions, such as board representation, veto rights, or approval requirements for key actions.

Holding Company A company created to own controlling shares in other companies, typically not producing goods or services itself but managing a portfolio of subsidiary businesses.

Indemnification A contractual provision in which one party agrees to compensate another for specific losses or damages, commonly negotiated in acquisition agreements and investment documents.

Information Rights Contractual rights entitling investors to receive regular financial statements, board updates, and other company information after making an investment.

Key Employee Retention Plan (KERP) A compensation program designed to retain critical employees during a company sale, restructuring, or distressed period, often used in acquisitions or bankruptcy proceedings.

Key Person Clause A provision in a fund or investment agreement that gives investors specific rights, such as suspending new investments, if a named critical individual (often a founder or fund partner) leaves or becomes unable to perform their role.

Liquidation Preference A term giving preferred shareholders (typically investors) the right to be paid back before common shareholders in the event of a sale, acquisition, or liquidation of the company.

Majority Shareholder A shareholder who owns more than 50% of a company's voting shares, giving them controlling influence over major corporate decisions.

Minority Stake An ownership position in a company representing less than 50% of shares, giving the holder economic exposure without controlling decision-making power.

No-Shop Clause A provision in a term sheet or acquisition agreement preventing a company from soliciting or negotiating with other potential investors or buyers for a set period.

Non-Compete Agreement A contract clause restricting an individual, such as a founder or executive, from working for or starting a competing business for a specified period after leaving a company.

Notice Period The amount of advance warning required by a contract before an action, such as terminating an agreement or calling a shareholder meeting, can take effect.

Novation The replacement of one party in a contract with another, with the consent of all involved, effectively transferring rights and obligations to the new party.

Operating Agreement A legal document outlining the ownership structure and operating procedures of an LLC, similar in purpose to bylaws for a corporation.

Option Pool A block of company equity set aside to grant stock options to employees, advisors, and future hires, typically carved out of the cap table before a new funding round.

Outstanding Shares The total number of a company's shares currently held by all shareholders, including founders, employees, and investors, used as the denominator when calculating ownership percentages.

Ownership Percentage The share of a company's total equity that a given shareholder holds, calculated against fully diluted shares outstanding.

Pari Passu A Latin term meaning "on equal footing," used to describe securities or creditors that rank equally with one another in terms of payment priority.

Personal Guarantee A commitment by an individual, often a founder, to personally repay a business debt if the company itself is unable to, sometimes required by lenders for early-stage venture debt.

Post-Money Valuation A company's value immediately after a funding round closes, calculated as pre-money valuation plus the amount of new capital raised.

Pre-Money Valuation A company's estimated value before a new round of funding is added, used as the basis for calculating how much equity new investors receive for their investment.

Preferred Stock A class of equity typically held by investors that carries priority over common stock in dividends and liquidation proceeds, often bundled with additional rights and protections.

Pro Rata Rights The right of an existing investor to participate in future funding rounds to maintain their percentage ownership in the company, rather than being diluted by new investors.

Protective Provisions Veto rights that let preferred investors block specific company actions, such as selling the company, issuing senior shares or changing the charter, without their separate approval.

Qualified Small Business Stock (QSBS) A special U.S. tax classification that allows eligible startup founders and investors to exclude some or all capital gains from federal tax when they sell qualifying stock held for more than five years.

Quorum The minimum number of board members or shareholders who must be present for a meeting's votes and decisions to be considered valid.

Redemption Rights A provision allowing preferred shareholders to require the company to repurchase their shares after a set period, giving investors a potential exit path if no liquidity event occurs.

Registration Rights Contractual rights allowing investors to require a company to register their shares for public sale, most relevant in the lead-up to or following an IPO.

Restricted Stock Company shares granted to founders or employees that are subject to vesting and forfeiture conditions, restricting the holder's ability to sell or transfer them until the conditions are met.

Right of First Refusal (ROFR) A contractual right giving the company or existing investors the option to purchase shares before they can be sold to an outside third party.

Rule 701 The SEC exemption that lets private companies issue equity compensation, like stock options, to employees and consultants without registering those securities.

Section 3(c)(1) An exemption under the Investment Company Act allowing a private fund to avoid registering as an investment company if it has 100 or fewer investors.

Section 3(c)(7) An exemption under the Investment Company Act allowing a private fund with an unlimited number of investors to avoid registration, provided every investor is a "qualified purchaser."

Section 83(b) Election A filing that lets a founder or employee pay tax on the full value of restricted stock at the time it's granted rather than as it vests, often locking in a much lower tax bill.

Shareholder Agreement A contract among a company's shareholders governing rights, obligations, and procedures such as share transfers, voting, and dispute resolution.

Stock Option A right granted to an employee or advisor to purchase company shares at a fixed price in the future, typically vesting over time as an incentive tied to company performance.

Tag-Along Rights A provision allowing minority shareholders to join a sale initiated by majority shareholders on the same terms, protecting them from being left behind in a partial exit.

Term Sheet A non-binding document outlining the key terms and conditions of a proposed investment, including valuation, board composition, and investor rights, serving as the basis for final legal agreements.

Treasury Stock Shares a company has repurchased from shareholders and holds in its own treasury, reducing outstanding share count without being retired entirely.

Vesting Cliff An initial period, commonly one year, during which no equity vests at all; if the recipient leaves before the cliff, they receive no shares, after which vesting typically continues monthly or quarterly.

Vesting Schedule The timeline over which a founder's or employee's equity grant is earned, typically over four years, incentivizing long-term commitment to the company.

Voting Rights The entitlement of a shareholder to vote on major corporate decisions, such as electing directors or approving a sale, typically tied to the class and number of shares held.

Warrant A security giving the holder the right to purchase company stock at a fixed price within a set period, often issued to lenders in venture debt deals as additional upside alongside interest payments.

Weighted Average Anti-Dilution A common anti-dilution formula that adjusts an investor's conversion price based on both the size and price of a new down round, offering more moderate protection than a full-ratchet approach.

Zero-Sum Game A situation in which one party's gain is exactly balanced by another party's loss, a dynamic sometimes invoked in tense term sheet or cap table negotiations.

6. Startup Metrics

The numbers investors use to judge traction and efficiency. (33 terms)

3-Statement Model A financial model linking a company's income statement, balance sheet, and cash flow statement, used by investors to underwrite a deal.

Amortization The gradual paying down of a loan's principal over time through scheduled payments, or the systematic write-off of an intangible asset's cost over its useful life.

Annual Recurring Revenue (ARR) The yearly value of a subscription business's recurring revenue, calculated by annualizing monthly recurring revenue, widely used to gauge SaaS company scale and growth.

Breakeven Point The level of sales or revenue at which a company's total costs equal its total revenue, meaning it is neither profitable nor losing money.

Burn Rate The rate at which a company spends its cash reserves before generating positive cash flow, typically measured monthly and used to calculate runway.

Cash Flow The net amount of cash moving into and out of a business over a period, a key indicator of financial health distinct from accounting profit.

Churn Rate The percentage of customers or recurring revenue a company loses over a given period, a critical health metric for subscription-based businesses.

Compound Annual Growth Rate (CAGR) The mean annual growth rate of an investment or metric over a specified period longer than one year, smoothing out volatility to show a consistent compounding rate.

Contribution Margin The revenue remaining from a sale after subtracting variable costs, used to determine how much a product or service contributes toward covering fixed costs and generating profit.

Customer Acquisition Cost (CAC) The total sales and marketing cost required to acquire a single new customer, a key efficiency metric investors evaluate alongside lifetime value.

Debt Service Coverage Ratio (DSCR) A ratio measuring a company's or property's available cash flow relative to its debt payment obligations, used by lenders to assess repayment capacity.

Debt-to-Equity Ratio A leverage metric comparing a company's total debt to its shareholder equity, indicating how much of its financing comes from borrowing versus ownership capital.

Depreciation The accounting practice of allocating the cost of a tangible asset over its useful life, reducing reported earnings without an equivalent cash outflow.

EBITDA Earnings Before Interest, Taxes, Depreciation, and Amortization: a measure of a company's core operating profitability, widely used to compare businesses regardless of capital structure or accounting choices.

Going Concern An accounting assumption that a company will continue operating in the foreseeable future; auditors flag a "going concern" doubt when a company's ability to survive is in question.

Gross Margin The percentage of revenue remaining after subtracting the direct cost of producing a product or service, a key indicator of business model efficiency and scalability.

Hockey Stick Growth A growth pattern showing a long period of flat or slow performance followed by a sharp upward inflection, the shape investors often hope to see in a startup's projections.

Key Performance Indicator (KPI) A quantifiable metric a company tracks to measure progress toward a specific business goal, such as MRR growth, churn rate, or customer acquisition cost.

Lifetime Value (LTV) The total revenue a business expects to earn from a customer over the full duration of their relationship, often compared against CAC to assess unit economics.

Monthly Recurring Revenue (MRR) The predictable revenue a subscription-based business expects to receive every month from active customers, a core metric for SaaS and subscription startups.

Net Burn The net amount of cash a company loses each month after accounting for both expenses and any incoming revenue, a more precise runway metric than gross burn alone.

Net Income A company's total profit after subtracting all expenses, taxes, and costs from revenue, often called the bottom line of an income statement.

Net Revenue Retention (NRR) A measure of revenue retained from existing customers over a period, including expansions and minus churn or downgrades, a key health metric for subscription businesses.

Operating Expenses (OpEx) The ongoing costs a business incurs through its normal operations, such as salaries, rent, and marketing, distinct from one-time capital expenditures.

Profit Margin The percentage of revenue that remains as profit after all expenses are deducted, used to assess how efficiently a company converts sales into earnings.

Quick Ratio A liquidity metric measuring a company's ability to meet short-term obligations using its most liquid assets, calculated as cash and equivalents divided by current liabilities.

Rule of 40 A guideline for evaluating SaaS companies stating that growth rate plus profit margin should equal or exceed 40%, used to balance growth against efficiency.

Runway The amount of time a company can continue operating before running out of cash, calculated by dividing its current cash balance by its monthly burn rate.

Unit Economics The direct revenues and costs associated with a single unit of a business, such as one customer or one transaction, used to assess whether a business model is fundamentally profitable at scale.

Variable Cost An expense that changes in proportion to production or sales volume, such as materials or transaction fees, as opposed to fixed costs like rent.

Working Capital The capital a business has available for day-to-day operations, calculated as current assets minus current liabilities, reflecting short-term financial health.

Year-over-Year Growth (YoY) A comparison of a metric, such as revenue, against the same period one year earlier, used to measure growth while smoothing out seasonal fluctuations.

Z-Score (Altman Z-Score) A financial formula combining several balance-sheet and earnings ratios to estimate the probability that a company will face financial distress or bankruptcy within the next two years.

7. Exit and Returns

How investors and founders get paid, and how returns are measured. (81 terms)

100x Return (Fund Returner) A single investment whose exit value is large enough to return an entire fund's committed capital on its own, the outsized outcome venture portfolios are built around.

1031 Exchange A tax-deferral strategy under IRC Section 1031 that allows real estate investors to sell one investment property and reinvest the proceeds into a like-kind property without immediately paying capital gains tax.

10x Rule A rule of thumb used by venture investors evaluating whether a deal has enough upside potential to return at least ten times the invested capital.

Accretive Acquisition An acquisition that increases the acquiring company's earnings per share or overall value, as opposed to a dilutive acquisition, which decreases it.

Acqui-hire An acquisition made primarily to bring on a startup's talented team rather than its product or business, common when a struggling startup's technology has limited standalone value.

Acquisition (M&A) The purchase of a company by another company, often the most common exit path for venture-backed startups, providing liquidity to founders and investors in cash, stock, or a combination.

Add-On Acquisition A smaller acquisition made by a private equity-backed platform company to expand its capabilities, geography, or customer base, a common strategy in buy-and-build investing.

Antitrust Review A regulatory examination of a proposed merger or acquisition to determine whether it would substantially reduce competition, potentially blocking or requiring modifications to the deal.

Asset Purchase An acquisition structure in which the buyer purchases a company's specific assets and liabilities rather than its stock, often used to limit exposure to unwanted liabilities.

Basis Point A unit equal to one one-hundredth of a percentage point (0.01%), commonly used to describe small changes in interest rates, fees, or valuation terms with precision.

Berkus Method A pre-revenue startup valuation framework that assigns dollar value to five qualitative risk factors (sound idea, prototype, management team, strategic relationships, and product rollout), commonly used by angel investors.

Blank Check Company A shell company formed to raise capital through an IPO with no specified business plan, typically to later acquire a private company and take it public, as with a SPAC.

Book Value The value of a company's assets minus its liabilities as recorded on its balance sheet, used as one baseline for valuation alongside market-based methods.

Buyout The purchase of a controlling interest in a company, often by a private equity firm using significant leverage, typically followed by operational changes to increase value before a future exit.

Comparable Company Analysis A valuation method that estimates a company's worth by comparing its financial metrics against similar publicly traded or recently acquired companies in the same industry.

Consortium Deal An acquisition or investment made jointly by multiple firms pooling capital and expertise, often used for deals too large or risky for a single investor to pursue alone.

Continuation Fund A new vehicle a private equity sponsor creates to hold one or more existing portfolio companies beyond the original fund's life, allowing existing LPs to cash out or roll over while new investors provide fresh capital.

Control Premium The additional amount a buyer pays above a company's current market or fair value to acquire a controlling ownership stake, reflecting the value of decision-making power.

Credit Rating An assessment of a borrower's creditworthiness issued by a rating agency, influencing the interest rate and terms at which a company or fund can borrow.

Crown Jewel Defense An anti-takeover tactic in which a target company sells or threatens to sell its most valuable assets to make itself less attractive to a hostile acquirer.

Dilutive Acquisition An acquisition that decreases the acquiring company's earnings per share or per-share value, the opposite of an accretive acquisition.

Direct Listing A method of going public in which a company lists its existing shares directly on an exchange without issuing new shares or using underwriters, unlike a traditional IPO.

Direct Secondary The sale of a specific stake in a private company directly between a seller and buyer, as opposed to a fund-level secondary transaction involving an entire fund interest.

Discount Rate The rate used to convert future cash flows into their present value, reflecting the time value of money and the risk associated with receiving those cash flows later.

Discounted Cash Flow (DCF) A valuation method that estimates a company's worth by projecting its future cash flows and discounting them back to present value using a chosen discount rate.

Distribution Cash or securities paid out by a fund to its limited partners as investments are realized, or by a company to its shareholders from profits.

Divestiture The sale, spin-off, or closure of a business unit or asset, often pursued to refocus a company's strategy, raise capital, or satisfy regulatory requirements.

Dividend A portion of a company's profits paid out to shareholders, typically on a regular schedule, most common among mature companies rather than early-stage startups.

Dividend Recapitalization A transaction in which a private equity-owned company takes on new debt to pay a large dividend to its shareholders, allowing the sponsor to extract value before an eventual exit.

Dividend Yield A company's annual dividend payment expressed as a percentage of its share price, used to compare income-generating potential across investments.

Dollar-Cost Averaging An investment strategy of committing a fixed amount of money at regular intervals regardless of price, reducing the impact of volatility on the average purchase cost.

DPI (Distributions to Paid-In Capital) A fund performance metric measuring cash actually distributed to limited partners relative to capital they've paid in, considered a more concrete indicator of realized returns than paper markups like TVPI.

Earnout A provision in an acquisition agreement where part of the purchase price is contingent on the acquired company hitting specific future performance targets.

Enterprise Value A measure of a company's total value, calculated as market capitalization plus debt minus cash, often used instead of market cap when comparing companies with different capital structures.

Escrow Funds or assets held by a neutral third party until agreed-upon conditions are met, commonly used to hold back a portion of acquisition proceeds pending post-closing obligations.

Exit Strategy The planned method by which founders and investors realize a return on their investment, typically through an acquisition, IPO, or secondary sale of shares.

Fair Market Value The price an asset would sell for between a willing buyer and seller, neither under pressure to act, commonly used to value private company stock for tax and compliance purposes.

Form 1099 The IRS form used to report income paid to an investor outside of standard employment wages, such as dividends or interest.

Greenshoe Option A provision in an IPO underwriting agreement allowing underwriters to sell additional shares if demand exceeds expectations, helping stabilize the stock's price after listing.

Haircut A reduction applied to an asset's stated value, often used informally to describe a lower valuation investors are willing to accept relative to a company's prior round or ask.

Holding Period The length of time an investor retains an investment before exiting, which can affect tax treatment (such as qualifying for QSBS or long-term capital gains) and how returns are measured.

Horizontal Integration A growth or acquisition strategy in which a company acquires or merges with competitors offering similar products, expanding market share rather than moving along the supply chain.

Hurdle Rate The minimum rate of return a fund must achieve before its general partner can start collecting carried interest, protecting limited partners' baseline expectations.

Illiquidity The inability to quickly convert an asset into cash without a significant loss in value, a defining characteristic of private company stock compared to publicly traded shares.

Initial Public Offering (IPO) The process by which a private company first sells shares to the public on a stock exchange, providing liquidity for founders and early investors and access to public capital markets.

Internal Rate of Return (IRR) An annualized rate of return that accounts for the timing of cash flows, widely used by funds to compare investment performance across different holding periods.

J-Curve The typical pattern of a venture fund's returns over its life: value often dips in early years as fees and losses accumulate, before rising sharply as portfolio companies mature and exit, forming a J-shaped curve when charted.

Junk Bond A high-yield, below-investment-grade bond that offers higher interest payments to compensate investors for a greater risk of issuer default.

Killer Acquisition A term describing an acquisition made primarily to eliminate a smaller competitor's product or technology rather than to develop it further, a practice that has drawn antitrust scrutiny in tech.

Leverage The use of borrowed capital to increase the potential return of an investment, while also increasing the potential risk of loss if the investment underperforms.

Liquidity Event An occurrence, such as an acquisition, IPO, or secondary sale, that allows founders and investors to convert their equity into cash.

Lock-Up Period A set span of time after an IPO or acquisition during which insiders and early investors are contractually restricted from selling their shares.

Market Capitalization The total value of a company's outstanding shares, calculated by multiplying share price by the number of shares outstanding, most commonly used for publicly traded companies.

Merger The combination of two companies into a single new entity, typically pursued to gain scale, market share, or complementary capabilities.

Multiple on Invested Capital (MOIC) A measure of how much value an investment has returned relative to the capital invested, calculated as total value returned divided by total capital invested, without accounting for time.

Net Present Value (NPV) The current value of a future stream of cash flows, discounted back to today at a chosen rate, used to evaluate whether an investment is expected to create more value than it costs.

Open Market A public trading venue, such as a stock exchange, where securities are bought and sold freely, as opposed to privately negotiated transactions.

Opportunity Cost The value of the next-best alternative given up when choosing one investment or decision over another, a core concept in evaluating whether a use of capital is worthwhile.

Optionality The strategic value of having multiple future paths available, such as a startup pivoting business models or an investor holding rights to invest further without obligation.

Preferred Return The minimum annual return, often around 8%, that a fund must deliver to its limited partners before the general partner can share in profits through carried interest.

Quiet Period A period, often before and shortly after an IPO, during which a company and its insiders are restricted from making public statements that could be seen as promoting the stock.

Recapitalization A restructuring of a company's mix of debt and equity, often used to bring in new investors, pay out early shareholders, or improve the balance sheet ahead of growth or a sale.

Return on Investment (ROI) A measure of an investment's profitability, calculated as the gain (or loss) relative to the original amount invested, expressed as a percentage or multiple.

Schedule K-1 The tax form limited partners in a fund receive annually, reporting their share of the fund's income, gains, losses, and deductions, in place of a 1099.

Secondary Sale The sale of existing shares by a founder, employee, or early investor to another buyer, providing liquidity

without the company itself raising new capital.

Section 1045 (QSBS Rollover) An IRS provision allowing an investor to defer capital gains tax on the sale of Qualified Small Business Stock by reinvesting the proceeds into new QSBS within 60 days.

Section 1202 (QSBS) The IRS provision governing Qualified Small Business Stock, which can let early investors and founders exclude a significant portion of capital gains from federal tax on a successful exit.

Tender Offer A public offer to purchase shares directly from existing shareholders at a specified price, often used in acquisitions or to provide liquidity to employees and early investors.

Third-Party Valuation An independent assessment of a company's worth performed by an outside firm, often required for tax compliance or to support fair pricing in a transaction.

Underwriting The process by which investment banks assess risk and set terms for a company's public offering or debt issuance, including pricing shares and committing to sell them to investors.

Unrealized Gain An increase in the value of an investment that has not yet been sold, meaning the profit exists on paper but has not been converted into cash.

Upside Potential The amount of additional return an investment could realistically generate above its current or expected value, a key factor investors weigh against downside risk.

Waterfall (Distribution Waterfall) The order in which proceeds from an exit or fund distribution are paid out to different stakeholders, typically returning capital and preferred returns to investors before common shareholders share in the remainder.

White Knight A friendly acquirer that a target company invites to make a competing bid in order to avoid a hostile takeover from an unwanted suitor.

Wind-Down The process of ceasing a company's or fund's operations, settling remaining obligations, and distributing any remaining assets to stakeholders.

Withholding Tax Tax deducted at the source of income, such as on dividends or interest paid to foreign investors, before the remaining funds are distributed.

XIRR A version of the internal rate of return calculation that accounts for cash flows occurring at irregular, unevenly spaced dates, commonly used by funds to measure fund and deal-level performance.

Yield The income an investment generates over a period, expressed as a percentage of the amount invested, commonly used to evaluate income-producing assets like debt or dividend-paying equity.

Yield Curve A line plotting interest rates on bonds of equal credit quality but differing maturities, widely watched as a broader signal of economic conditions affecting capital markets.

Zero-Coupon Bond A bond issued at a discount to its face value that pays no periodic interest, instead delivering the investor's full return when it matures.

Zombie Company A company that generates just enough cash to service its debt and cover operating costs but lacks the growth or profitability to expand, repay principal, or attract fresh investment.

Raising capital or investing? Global Capital Network connects founders with accredited angels, VCs and family offices. Apply to present or join the investor network at globalcapitalnetwork.com.