

The logo for Dentons, featuring the Chinese characters '大成' followed by 'DENTONS' in a bold, sans-serif font, all contained within a white arrow-shaped graphic pointing to the right.

大成 DENTONS

Global Venture Technology

Simple Agreements for Future Equity (SAFEs)

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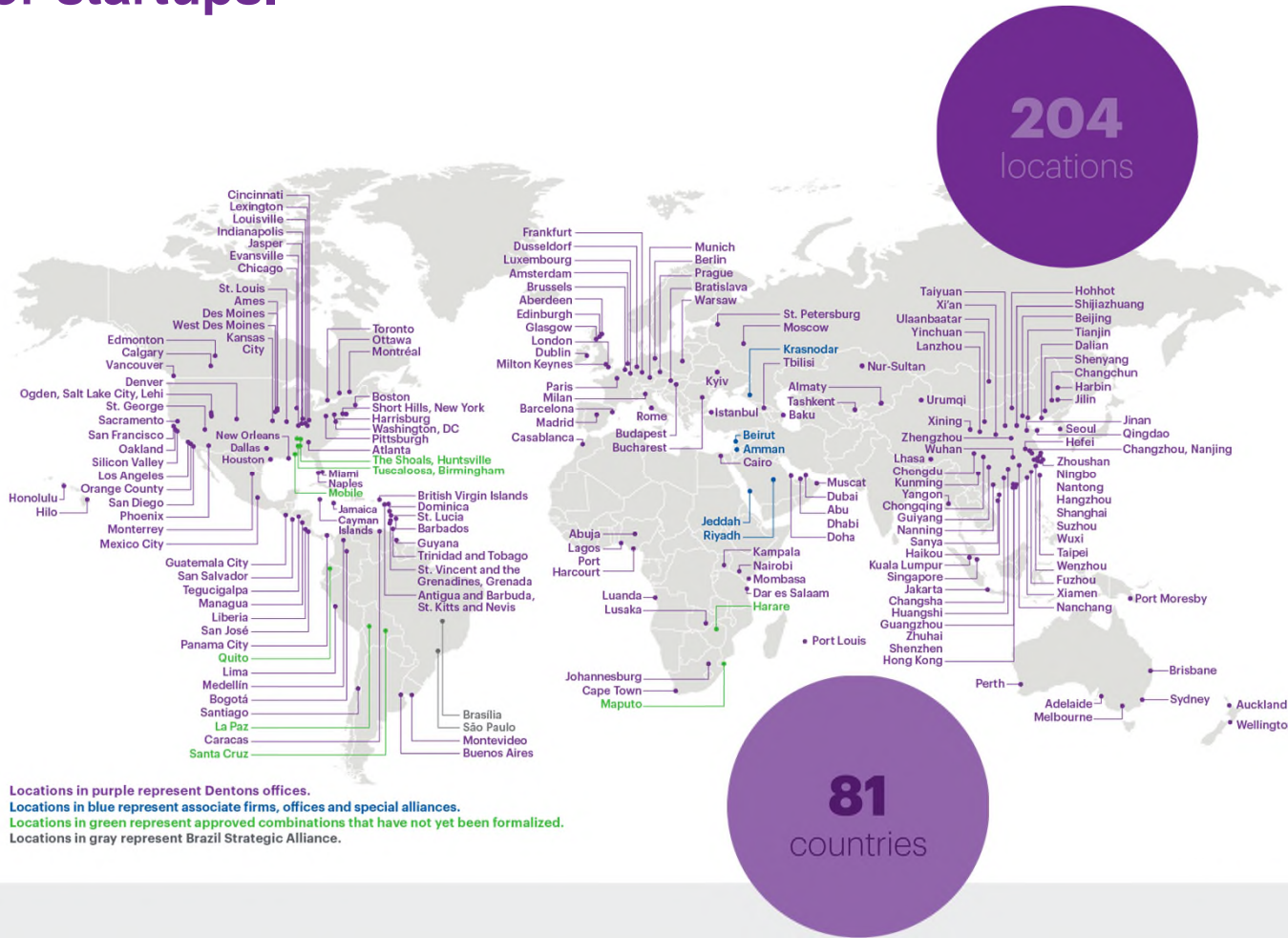
Amit Co-Heads Dentons' Venture Technology and Emerging Growth practice group in Southern California.

Amit is highly skilled in business transactions. He focuses on venture capital and private equity transactions, mergers and acquisitions, joint ventures, technology transactions, and general corporate law for companies whose core value derives from intellectual property. In the hundreds of M&A, venture capital and other sophisticated business transactions he's led over the last two decades and as outside general counsel to life sciences and technology companies, Amit has immersed himself in his clients' businesses, providing practical legal advice in the context of the clients' overall business goals.

He also represents managers and investors in the formation of venture capital, private equity and hedge funds. Amit has extensive experience counseling companies and investors in a broad range of industries, including life sciences, software, hardware, communications and networking, Internet, manufacturing and distribution, and medical devices.

Amit is a frequent speaker and author on startups, venture capital and M&A and has written hundreds of thought leadership articles on his blog – www.startupblog.com.

An unparalleled global platform across key locations for startups.



12,000+
Total number of lawyers

14,000+
All timekeepers

20,000+
Total number of people

Globally Ranked Venture Technology, M&A and IP teams

- Top 10 globally ranked venture practice in PitchBook
- No. 1 European ranked M&A practice in PitchBook
- No. 1 ranked patent prosecution law firm in US in BioTech
- Acritas Global Brand Elite Index - #2 best known law firm globally; #3 most favored law firm globally
- Consistently ranked in the top tier, nationally and regionally, for IP Litigation, Trademark, Copyright and Patent Law by Chambers USA, Legal 500 United States
- Dentons currently represents 193 of the largest 200 companies in the world

Global Venture Technology team by the numbers

Innovation. Acceleration. Disruption.

Dentons Venture Technology:

Boutique approach—unmatched global presence.



500+

investor relationships



1500+

startup clients



15+

sectors served



20+

startup centers



400+

venture tech lawyers



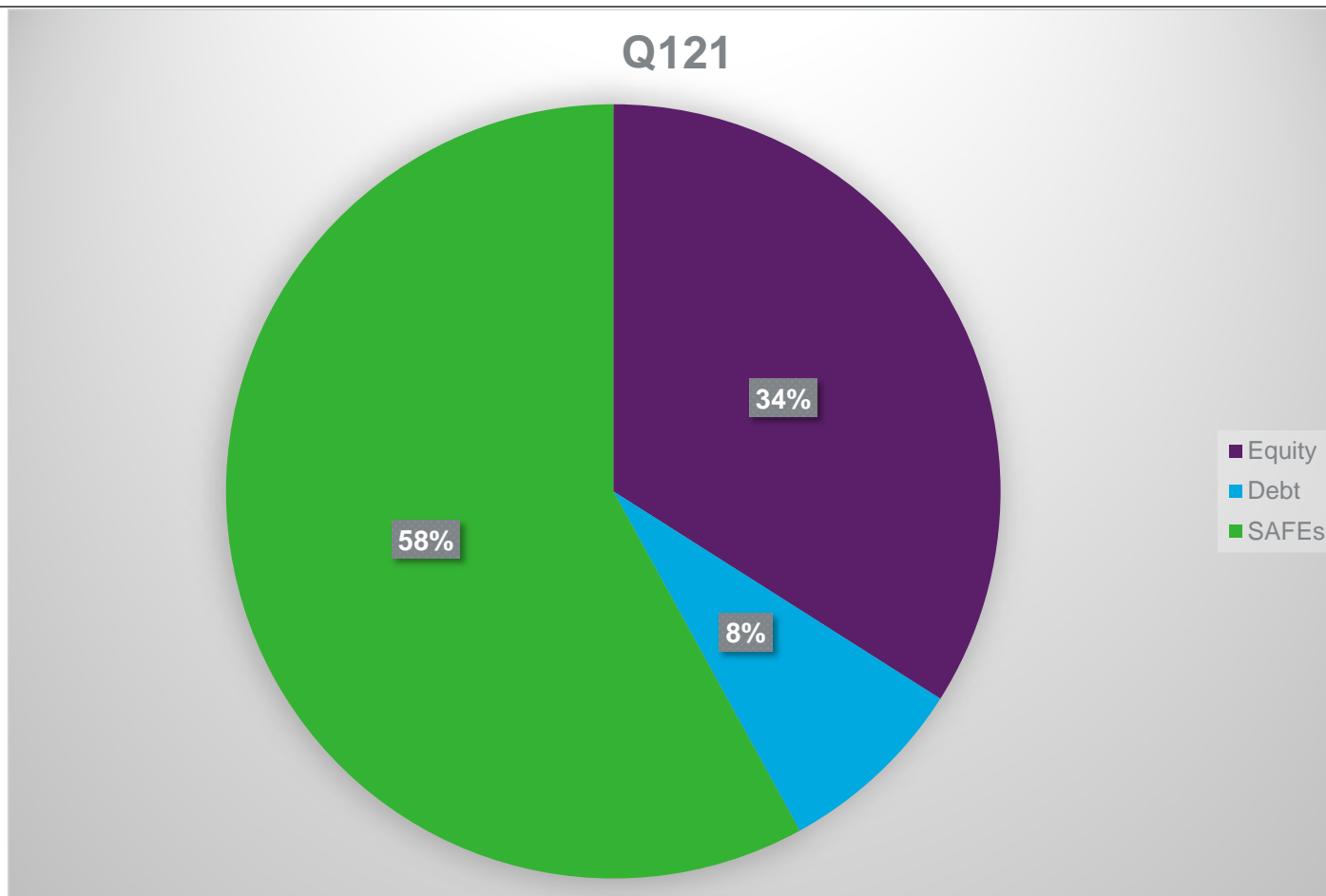
1400+

2020 transactions

SAFEs - Introduction

- Introduced by Y-Combinator in 2013 as an alternative to convertible notes
- Low transaction costs – form agreement
- Required to represent that no changes have been made to the form

Popularity on Angel List



Similar to Convertible Notes

- Like a Note with no Maturity Date and No Interest Rate
- Converts into a later round at the lower of:
 - Post-Money Valuation Cap (more on this later)
 - Discount to Next Round Price
- Liquidity Event – receive the greater of:
 - Amount invested; or
 - Pro rata amount as if converted to Common Stock (at the Post-Money Valuation Cap)
 - Paid a closing, likely without regard to any escrows, holdbacks or earnouts, but unclear

Different from Convertible Notes

- No Minimum Deal Size to Force Conversion (Zenlo/PrivacyHawk)
- No Events of Default
- Paid After Debt
- No Liquidation Preference Windfall
 - Shadow Preferred

Different from Convertible Notes

- Post-Money Valuation Cap
- Not diluted by additional SAFEs
- At closing of the next round, SAFE will represent an agreed percentage of the pre-money capitalization (excluding option pool increase)
- If Invest \$1M via SAFE with a Post-Money Valuation Cap of \$5M, SAFE represents 20% of pre-money cap table before the next round, even if \$2M in total raised
- Caution: if sell \$5M in SAFEs with a Post-Money Valuation Cap of \$5M, SAFEs represent 100% of pre-money cap table before next round!

SAFE Protections

- Pro Rata Rights (Optional)
- Right to purchase pro rata portion of shares sold in the conversion round to maintain percentage ownership post-closing
- Dividends Paid Pro Rata

Additional concerns with SAFEs

- Limited Representations and Warranties
- No Board Representative
- No fiduciary duties owed
- No protective provisions/negative covenants
- No information rights (contractual or statutory)

Tax Treatment of SAFEs

- Tax Treatment
 - Though not clear, likely treated as equity
 - QSBS Holding Period likely starts at issuance
 - Convertible Note QSBS holding period starts at conversion
- Qualified Small Business Stock
 - Issued by C corp with \$50M or less in gross assets
 - Exclude 100% of federal income tax on gain
 - Capped at \$10M or 10x investment (whichever is greater)
 - Must hold for 5 years

Summary

- SAFEs vs Convertible Notes
- Discount with a Cap
- Cap is Calculated Post-Money Before New Money
- No maturity date or interest rate
- QSBS holding period likely starts at issuance
- No minimum deal size to force conversion (Zenlo/PrivacyHawk)
- Likely as good as Notes on the upside, but much worse on the downside
- If only worried about upside, need to set minimum deal size for conversion (via side letter)