GV LAW

SAFE NOTES: THREE FOUNDER MISSTEPS THAT RESHAPE EARLY-STAGE COMPANIES

GV LAW INSIGHTS

Simple Agreements for Future Equity ("**SAFEs**") have become a common tool for early-stage fundraising because of their speed and simplicity, but that same simplicity often leads founders to overlook critical structural terms. In this Insight, we highlight three common founder missteps in issuing SAFEs, each of which can materially affect ownership, future financing rounds, and long-term company control. Understanding these pitfalls early allows founders to raise capital efficiently without compromising their cap table or strategic flexibility.

1. Treating SAFEs as Capital Without Immediate Ownership Impact

Founders often assume SAFEs affect ownership only at the priced round. In practice, the economic deal is fixed at signing. Post-money SAFEs allocate a defined slice of the company, and repeated SAFE rounds at different caps or discounts compound that impact. Incremental fundraising spreads founder equity thinner than expected, and the distortion becomes obvious only when an institutional investor rebuilds the cap table. This problem appears when founders raise in fragments, track proceeds but not dilution, and fail to run fully diluted projections each time they accept new capital. SAFEs are fast, but they are not neutral. Every signature changes the structure.

2. Allowing Terms to Diverge and Creating Drag in the First Institutional Financing

Small variations across SAFEs turn into operational friction later. Companies mix versions, add informal rights through email, or accept investor requests without aligning them to a standard set. Most Favored Nations provisions differ. Caps and discounts shift across close dates. Information rights and pro rata terms appear in some documents but not others. When a lead investor steps in, this fragmented stack slows everything. Cleaning it up requires amendments or side arrangements that could have been avoided with discipline at the outset. Uniformity matters. A company can raise on SAFEs with speed and still maintain a single, consistent structure that will survive diligence.

3. Using SAFEs to Delay Corporate Hygiene and Creating Fragility Underneath the Financing Layer

Many companies issue SAFEs before they are actually ready to take on outside capital. Founders bring in money while core elements remain unfinished: IP assignments, founder equity issuance, equity plans, initial board approvals, state compliance, and formal corporate records. SAFEs convert into preferred stock. If the common stock foundation is incomplete, the conversion layer inherits those defects. Early investors might not notice, but institutional investors will. At that stage, the company faces a cleanup process that diverts time and creates skepticism. SAFEs are not a substitute for corporate structure. They sit on top of it, and any gap beneath them becomes more expensive to fix later.

Practical Takeaways for Founders

Run a fully diluted cap table model before you sign any SAFE, and update it with each additional investor. Use one SAFE form and keep all terms aligned across the entire round. Finalize founder equity, IP assignments, and corporate records before raising. Maintain a simple internal system tracking every right granted to investors, including any variations. SAFEs can be an effective tool, but only when handled with the same discipline applied in a priced round. Consistent structure preserves ownership, protects future financing momentum, and positions the company to enter institutional diligence with credibility.

GV LAW Capabilities

GV LAW advises founders and emerging companies on early-stage financing strategies, including SAFEs, convertible notes, and equity rounds. We help clients structure investments thoughtfully, protect their cap tables, and position their businesses for successful, long-term growth.