CONVERTIBLE NOTES:
Understanding the Key Terms
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I. Background Basics
II. Benefits of Convertible Note vs Equity
III. Key Terms
IV. Ancillary Documents
V. Basic Securities Laws Issues
I. Background Basics

- Promissory note = obligation to pay loan unless it “converts”
  √ generally when Series A financing occurs (“bridge” between seed stage and Series A)
- Angels (or certain F&F)
II. Benefits of Convertible Note vs. Equity

- Avoid valuation (but see “Cap on valuation”)
- Avoid dilution (but see “Capitalization table”)
- Quicker funding because less documentation/negotiations/attorney fees (but see “Seed Equity Documents”)
CONVERTIBLE NOTES:
Understanding the Key Terms

III. Key Terms

• Principal amount
• Interest rate
• Maturity date
• Conversion*
• Conversion discount*
• Cap on valuation*
• Payoff upon pre-conversion exit/sale of company
• Unsecured (vs. secured)
CONVERTIBLE NOTES: Understanding the Key Terms

IV. Ancillary Documents

• Note Purchase Agreement
• Term Sheet
V. Basic Securities Laws Issues

• Regulation D
• crowd-funding
• general solicitation