CONVERTIBLE NOTES:
Understanding the Key Terms
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”*)
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