



CONVERTIBLE NOTES

A BRIEF INTRODUCTION

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Why are Convertible Notes Popular

- Inexpensive to implement
- Well accepted and understood by angel investors, Forms online
- Limited number of terms
- Delays making the valuation decision until later
- Unlike SAFEs, has a claim on company assets if not paid or converted

What are the key terms

- Conversion Details
 - Discount price and Valuation Cap
 - Qualified Financing Characteristics
 - Mandatory and Voluntary options
- Change of Control Provisions
- Amendment Provisions
- Interest rate

What to watch out for

- Valuation Cap calculations methods
 - Often exclude option pool for next financing
- Shadow securities
 - No free liquidation preference
- No ability to convert after maturity date

What to ask for (sometimes)

- Preemptive rights
- Information rights
- Board / Observer Rights
- Most Favored Nations
- Security Interests