

Adapted from a true story....

STARTUP!

You founded a startup in 2015 and now want to **raise capital** in order to take the business to the next level.

STAGE OF BUSINESS

You and your team have been working endless hours to take the company from milestone to milestone. You have been **generating revenue** and are expected to be profitable by 2017.



AT MATURITY DATE

Series A **was not raised at maturity** because your company is now profitable enough. There is no further agreement for the valuation of the company without a subsequent round of founding.

PROBLEM

Although you agree to buy back the investor's equity based on your own valuation, the investor believes that his equity is worth more.

CONSEQUENCES

At this stage, the investor believes that the current value of the company is superior to what you claim.

This entails a greater profit gained from the sale of his company, meaning a higher value of that equity.

There is no agreed way of calculating the valuation of the company before hand, and no valuation cap.



INITIAL INVESTMENT

An investor is interested in your venture and decides to invest **\$300K** using a **Convertible Note** with a 12-month **maturity date** and a 25% **discount rate**.

TERM SHEET

Excited to raise money, you and the investor begin to establish the terms of investment.

The terms state that the note **converts to common equity** if Series A was not **raised** at maturity, but does not address the **value of equity** that it will convert into.

DISPUTE

The investor wants out, and wants his money back. As there is no qualified financing round, the note converts into **common equity shares**. Consequently, the investor asks that you buy back the shares.

THREAT

You decline, and the investor threatens legal action against you.



ISSUE COULD'VE BEEN AVOIDED

With an agreed **valuation cap** beforehand.

THIS COULD BE YOU!

The above could have easily happened to anyone. The need for legal documentation is not often apparent until the relationship falls apart.

