

# CONVERTIBLE NOTES: Understanding the Key Terms



*Legal Strategies and Solutions  
to Protect and Grow Businesses<sup>sm</sup>*

**Peter Papagianakis**  
**Business Law Firm LLC**

22 Jericho Turnpike; Suite 100-East  
Mineola, NY 11501

t: 516-280-8600  
f: 516-740-0761

e: [pp@BLawFirm.com](mailto:pp@BLawFirm.com)  
web: [www.BLawFirm.com](http://www.BLawFirm.com)

1375 Broadway (37 St.); Suite 300  
New York, NY 10018

t: 646-862-1210  
f: 646-292-5121



# **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**

# CONVERTIBLE NOTES: Understanding the Key Terms

## 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)

# CONVERTIBLE NOTES: Understanding the Key Terms

## 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

# CONVERTIBLE NOTES: Understanding the Key Terms

## **V. Basic Securities Laws Issues**

- Regulation D
- crowd-funding
- general solicitation