Do You Need A Guardian Angel?

How to Attract and Work with Angel Investors to Grow Your Business

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Key Terms - Convertible Debt

- **Interest.** A convertible promissory note accrues interest at a certain percentage rate, which is withheld until conversion or repayment of the note.
- **Maturity.** Most convertible promissory notes mature in 12-24 months.
- **Mandatory Conversion on Qualified Financing.** A convertible promissory note will convert into shares of the equity security issued in a future financing at a discount.
- **Mandatory Conversion in the Event of a Sale.** If an issuer is sold or sells all or substantially all of its assets, investors may (i) convert their convertible promissory note into shares of the issuer's common equity securities or (ii) accelerate the maturity of such note and may receive a multiple of their initial investment.
- **Preemptive Rights.** Investors may negotiate the right to purchase their pro rata portion of any future debt or equity issuance by an issuer.

Key Terms - Series A Preferred Stock

- **Priority Return.** Preferred stockholders receive a cumulative, annual priority return at a negotiated interest rate, which is paid in preference to any distribution to common equity holders.
- **Participation.** Investors then participate with the holders of the common equity securities of the issuer in any further distributions made by the issuer.
- **Liquidation Preference.** In the event of a liquidation or sale of the issuer, investors typically receive in preference to the holders of common equity securities a multiple of the investment plus any accrued but unpaid priority returns before the holders of the common equity securities receive anything.
- **Protective Provisions.** Preferred stockholders typically negotiate special rights set forth in the operating agreement.
- **Anti-Dilution Protection.** The conversion price for Series A Preferred Stock may be adjusted to reduce dilution upon the occurrence of certain events.
- **Board Seat.** Preferred stockholders are typically entitled to appoint at least one director to the board of the issuer.

Pros and Cons – Convertible Debt

Pros:

- **First in Line**
- **Lower Risk Investment**
- **Lower Upfront Costs**
- **Shorter Timeframe to Complete Sale and Issuance**
- **Shorter Term Investment**

Cons:

- **Living with the Terms of the Series A Preferred Stock**
- **Smaller Equity Position**

Pros and Cons – Series A Preferred Stock

Pros:

- **Larger Equity Position**
- **Control of the Pen**

Cons:

- **Last in Line**
- **Higher Risk Investment**
- **Higher Upfront Costs and Longer Timeframe**
- **Longer Term Investment**