

EARLY STAGE VENTURE INVESTMENT STRUCTURES PROVIDED BY JACKSON WALKER LLP

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The following chart outlines the different approaches an entrepreneur and investor can take to structure the first capital infusions into a startup.

Equity or Debt	Conversion to Stock	Holder's Rights	Pros	Cons
SAFE Equity	 Automatically upon the next equity round with no minimum threshold, after a liquidity event, or dissolution of the company for an agreed upon multiple (such as 1X of the amount invested). 	• Standard form provides for no additional investor rights until conversion, unless a major investor, which is afforded most favored nations rights.	 Simplistic, efficient, and easy to transact. Permits company to raise capital without incurring debt. Removes maturity and interest features from a 	 Lacks certain forms of investor protections, including lack of conversion if no future financing round occurs.

	Equity or Debt	Conversion to Stock	Holder's Rights	Pros	Cons
		• Conversion is typically at a discount to the price paid by investors in next round (often in a range from 10% to 30% of the price paid in the equity round) and typically the valuation at which the debt is converted is capped at a certain pre-money valuation.		traditional note.	
KISS Debt	Debt	• Automatically upon a qualified dollar amount threshold (such as \$1 million being raised in the form of equity), or a liquidity event for a return of an agreed upon multiple (such as 2X of the amount invested).	 Information rights, rights to participate in future financings of the company, and most favored nations rights. 	 Additional investor rights are included. Provides certain options for non- payment at maturity (creation of new class of stock). 	 Does not remove all of the complexities/ negotiations. Phantom gains on interest which is converted into equity. Maturity date results in risk to the entrepreneur if further funding has not been received.
KISS Equity	Equity	• Automatically upon a qualified dollar-amount threshold (such as \$1 million being raised in the form of equity), or a liquidity event for a return of an agreed upon multiple (such as 2X of the amount invested).	 Information rights, rights to participate in future financings of the company, and most favored nations rights. 	 Additional investor rights. Provides certain options for non- payment at maturity (creation of new class of stock). Removes maturity and interest features from KISS Debt. 	 Does not remove all of the complexities/ negotiations.

	Equity or Debt	Conversion to Stock		Holder's Rights		Pros		Cons
Convertible Note	Debt/ Equity	 Typically, converts with a qualified dollar- amount threshold (such as \$1 million being raised in the form of equity). Conversion is typically at a discount to the price paid by investors in next round (often in a range from 10% to 30% of the price paid in the equity round) and typically the valuation at which the debt is converted is capped at a certain pre-money valuation. 	•	Prior to conversion, the holder may have the right to participate in future rounds and other negotiated for protections. Once converted to equity, the same as the equity holders of such financing round. Since this is debt, the noteholder is paid prior to equity holders on liquidation.	•	Defers company valuations. Has been utilized for a number of years, so serial early stage investors are familiar with document terms.	•	Cap price negotiations and discount negotiations can be challenging and increase costs. Phantom gains on interest which is converted into equity. Maturity date results in risk to the entrepreneur if further funding has not been received.

	Equity or Debt	Conversion to Stock		Holder's Rights	_	Pros	_	Cons
Seed Round	Equity	Convertible to common stock upon certain events or the decision of the investor.	•	Preferred returns, board seat, voting rights, and conversion rights.	•	Post-money dilution is agreed upon.	•	Costly, often longer negotiations than a traditional note round.
Preferred Round	Equity	Convertible to common stock upon certain events or the decision of the investor.	•	Preferred returns, board seat, voting rights, anti-dilution protection, and conversion rights.	•	Post-money dilution is agreed upon.	•	Costly, many terms involve heavy negotiations. Requires a portfolio of documents. ¹

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¹ See, e.g. model documents made available at nvca.org.