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# GET AN EDGE: UNDERSTANDING SEED FINANCING TERMS AND STRUCTURES

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# Today's Presenters



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# Overview

- I. What is a Seed Financing?
- II. Considerations in Structuring a Seed Financing
- III. Seed Financing Deal Structures
- IV. Common Stock Deals
- V. Series Seed Preferred Stock Deals
- VI. Convertible Debt Deals
- VII. SAFE Deals
- VIII. Questions

# WHAT IS A SEED FINANCING?



# Seed Financing

## Means Different Things to Different People

Not a term of art

## Size of the Rise

\$250,000 to \$1,000,000 +

## Stage of the Company

Post formation and Pre-Series A

## Types of Investors

4 Fs of Early Stage Startup Financing, Plus Angels and Seed Stage VCs

# CONSIDERATIONS IN STRUCTURING SEED FINANCINGS



# Considerations in Structured Seed Financings



**Who are the Investors and What are their Preferences?**



**How Much Capital is Being Invested?**



**What are the Costs?**



**What is the Timing?**



**Any Specific Considerations?**

# SEED FINANCING DEAL STRUCTURES



**Common Stock**

**Series Seed Preferred Stock**

**Seed  
Financing  
Deal  
Structures**

**Others**

**Convertible Debt**

**SAFEs**

# Common Stock

## What is It?

- Most basic form of equity

## What are the Terms?

- Generally, to elect directors, receive any dividends, share in any proceeds upon liquidation
- Generally, no special “investor-style” rights

## What are the Advantages?

- Low transaction costs
- From the company’s perspective, investors have very limited economic and control rights

## What are the Disadvantages?

- From the investor’s perspective, investors have very limited economic and control rights

## When is it Used?

- Founder financings
- Maybe friends and family financings

# Series Seed Preferred Stock

## What is It?

- A “special” form of equity

## What are the Terms?

- Liquidation Preference, Dividends, Pre-emptive Rights, Board Representation, Protective Provisions, Information Rights, Access Rights, and More

## What are the Advantages?

- From the investor’s perspective, a negotiated set of specific economic and control rights
- From the company’s perspective, the ability to attract smart money

## What are the Disadvantages?

- Higher transaction costs
- Longer time to closing

## When is it Used?

- Venture capital financings
- Sophisticated angel financings

# Convertible Debt

## What is It?

- A debt security that may convert into an equity security

## What are the Terms?

- Principal Amount, Interest Rate, Maturity Date, Discount, Valuation Cap
- Conversion Features (Qualified Financing, Non-Qualified Financing, Change of Control, Maturity)

## What are the Advantages?

- Punts the valuation conversation, if no Valuation Cap
- Low transaction costs
- Shorter time to closing

## What are the Disadvantages?

- From the investor's perspective, their stockholder rights are not yet set
- From the company's perspective, the debt could mature and become due and payable

## When is it Used?

- Very Often (especially in smaller raises and earlier raises)

# SAFEs

## What is It?

- “Simple” Agreement for Future Equity

## What are the Terms?

- Similar to a note with no interest of maturity

## What are the Advantages?

- Theoretically low transaction costs
- Theoretically shorter time to closing

## What are the Disadvantages?

- From the investor’s perspective, an irrevocable commitment of capital with a hope of fair treatment in the future

## When is it Used?

- Incubator financings, very early financings, very small financings, West Coast deals

**QUESTIONS?**

A vibrant, futuristic digital cityscape. The scene is composed of glowing, pixelated buildings and streets in various colors like blue, purple, and yellow, set against a dark background. The perspective is from a low angle looking down a long, straight street that recedes into the distance. The buildings on either side are made of glowing dots and lines, creating a sense of depth and perspective. The overall atmosphere is one of a high-tech, digital environment.

# Biography



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Benjamin David Novak is an active angel investor in early stage technology companies located on the East Coast of the United States. In addition to being an angel investor, Ben is a Partner with Morgan Lewis where he represents technology companies, angel investors, venture capital funds, and private equity firms. He is an active member of the venture community, serving on numerous advisory boards and regularly speaking at tech events, judging venture conferences, and lecturing on technology, entrepreneurship, and investing at colleges and universities.

# Biography



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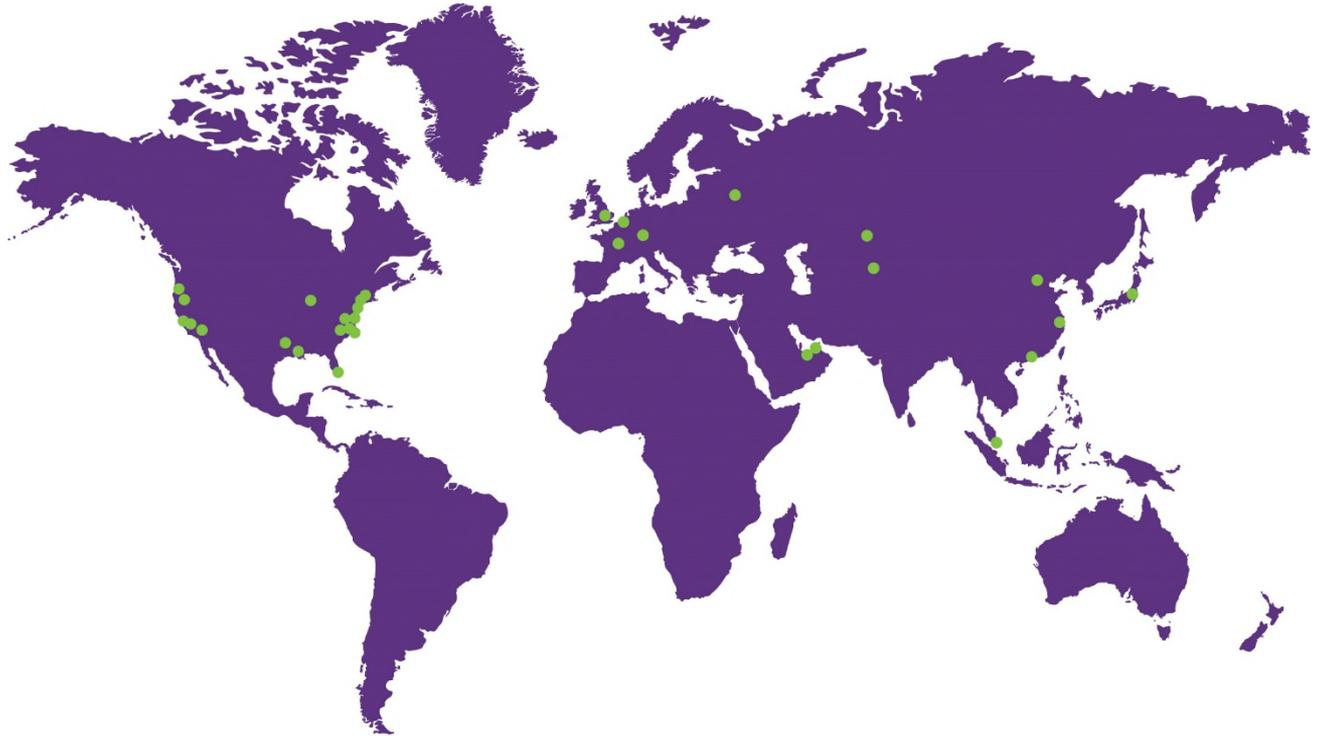
Evan J. McGillin advises clients on corporate matters with a focus on equity and debt financings, corporate governance, securities law, and mergers and acquisitions. As a member of the firm's emerging business and technology practice, Evan represents established and emerging growth companies in a variety of industries including technology, fintech, and life sciences.

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