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Seed Financings of Technology Start Ups

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This presentation provides a general overview and should not be taken as legal advice for any individual situation. To ensure that your situation gets proper consideration and treatment, please consult an attorney.



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What is a Seed Financing?

- The initial stage. The company has a concept or product under development, but is probably not fully operational. Usually in existence less than 18 months.
- Some venture funds say they do seed rounds.
- Some seed/angel investors use Series A Preferred rather than convertible notes, the typical seed investing instruments.



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What is a Seed Financing?

- There are some typical features:
 - Generally, they will be the first outside investment a company receives.
 - Generally, they will be rounds of under \$1,000,000.



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What is a Seed Financing?

- There are some typical features:
 - Generally, they will involve friends, family, and angels investing their own money rather than a venture fund which has raised money from third parties to invest.
 - Generally, they will involve convertible notes and/or warrants rather than Series A Preferred Stock.



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What Are Good Sources of Seed Funding?

- Personal contacts.
- Angel Groups.
 - Band of Angels
 - Kiretsu Forum
 - Angels Forum
 - Anticipate that these groups will apply a rigorous VC like analysis to your business



Seed Financing Instruments

- Typically Convertible Notes
 - A debt instrument
 - Convertible into preferred stock
 - At the next round price
 - Usually with a set minimum to force closing
 - i.e. \$3 million including all issued notes.
 - Includes conversion of accrued interest.



Seed Financing Instruments

- Advantages: no need to negotiate a valuation for the company. Can wait for a professional investor.
- Disadvantages: this is debt which can, under the wrong circumstances, give the investor a lot of control



Why Purchase Now

- Why not wait for a professional investor and invest side by side?
 - The Sweetner
 - Discount at conversion. Typically 15%.
 - Advantage: do not have to pay anything to benefit
 - Disadvantage: taxable to the extent of the discount when issued.



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Why Purchase Now

The Sweetener Continued

- Warrants. Typically 25-50%.
 - Advantage: Need take no action (and pay no taxes) until stock is going to show a profit.
 - Disadvantage: must pay to exercise warrants



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Documentation

- ✓ Board Resolution
- ✓ Note and Warrant Purchase Agreement
- ✓ Note
- ✓ Warrant



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Thank You