**Assignment 3: Convertible Notes | Haas Impact Fund**

*Professors Kline & Morse | Haas School of Business*

*Suraj Sehgal*

**Case: Evaluating Venture Capital Term Sheets**

Over the next couple of classes, we are going to work through deal structures, starting with convertible notes. Note: you may have heard of SAFEs, which are also common in startup contracting. SAFEs are just shortened versions of convertible notes, which we will cover next week.

This case may appear a bit overwhelming in its legal- finance language. Let’s tackle it over these two classes, breaking it down to what is important, and then it will be easy and never a hurdle.

Assignment:

Read the case carefully. The details will matter for our class conversation.

Write a 1 page memos (bulleted sentences is fine) of some of the differences in the convertible note offerings in the appendix. You should not try to be comprehensive. For example, one has more terms than the other. A bullet might explain which terms are missing in one, drawing attention to the label rather than each detail of those terms. We will go over the terms. Also you will want to look at the deal number differences (equity stake and other numbers) for example. We will cover what they mean. The exercise’s objective is for you to start to dig into the terms in the convertible note offerings. If some of them do not make sense, do not worry. I don’t want you doing a long exercise of trying to look up meanings, but rather to have done a very solid read of the terms.

**Note 1: Angel Term Sheet**

* This one is much shorter than the others
* Purchase price is face value versus $1 for Red Baron
* Prepayment requires written consent of the holders that hold at least 66 2/3% of the aggregate outstanding principal amount
* It is a non-binding agreement? Does that mean it’s not a real contract?

**Note 2: Top Gun**

* Has an actual closing date, a price per share of $1
* There’s a post-money evaluation explicitly listed

**Note 3: Red Baron**

* There’s more explicit dividends outlined and a full order it needs to follow.
* There are voting rights outlined for stock holders
* There’s additional sections that weren’t there in the others, e.g., Lock-up and Termination
* There’s an actual expiration date