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Life science funding models- legal discussion

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The early days

Obvious point: when a company starts it has no money

BUT, you still need some money for some initial issues:

- License agreement from a school or company
- Traveling around to raise money
- Initial experiments
- Maybe rent, etc

So how is the initial money raised?

- ***A "convert" or "convertible note" vs***
- ***A "SAFE" vs***
- ***A priced round or "series A"***
- ***You CAN use ANY of these. Which one??***
    - https://www.equityeffect.com/blog/safe-note-vs-convertible-note/

So how is the $ raised?

- ***Convert:***
  - Effectively a loan
    - It converts to stock at the pre money valuation of the series A, when that happens
    - THERE IS NO VALUATION OF THE COMPANY SET
    - Often (literally) friends and family
    - Usually a discount to the Series A price, when it occurs (almost always 20%)
    - Interest is paid (usually about 5-8 percent)
    - Simple
    - It has a TERM
      - AND if the money is not paid back or converted, the investor can, theoretically foreclose.
      - IMHO this is the big difference between a SAFE and a convert. It leaves the company exposed to possible takeover by the debt holder

A "CAP"

Historically there was not "CAP"

But now there is

- It sets a MAXIMUM valuation at which the debt converts.
- EG If the note is for 1M, and the CAP is 10M, (ignoring discounts) but the Series A raises 100M at a 100M pre money the convert note holders get about 10%. Not about 1%

A Safe

Actually, very similar to a convert

BUT largely comes from a group called ycombinator

- *https://www.ycombinator.com/documents/*
- *This has become the word for word document set for many financings.*

No foreclosure fear

Can be with or without a cap and or interest

Normal financing – Series A, B,……

Note to self: you want to never get to a series F!

Maybe call the first priced round an a, then an a1, etc.

Much more significant documentation and often extensive scientific and legal diligence

ESP IP in life science

Of course, they will want to know you can block competition

They also will want to know exactly where you stand on "freedom to operate", IE can someone stop you

Often the investor will hire an outside firm

MOST important difference! It is PRICED

It is MUCH more complex (ie expensive) legally

Extensive "reps and warranties" you must give attention

“Crossover round”

This is really just another round BUT

often there is an investor that will also invest in the IPO

This is a very specific set of investors.

IPO

Very extensive set of diligence

Banks "buy" the stock and resell it; IE they are "underwriters"

Leads to a very expensive set of maintenance costs

Legal and audit bills go up by millions of dollars per year

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Thank you

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