**Convertible Loan Agreement Template**

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1. All fields where your input is required are marked in green
2. Statements in the footer are included to assist and guide you in the preparation of this document
3. You should delete all statements in the footer as well as all square brackets from the **final form** of your document
4. This template assumes a scenario in which convertible loan is raised by more than one lender at the same time, so if there is only one lender in your case, make sure you adjust this template accordingly

**Reminder:**

This template, prepared and brought to you by [Equidam](http://www.equidam.com/?ref=convertibletemplate),[[1]](#footnote-2) serves as a starting point of your convertible loan transaction. The contract is not tailored to your unique circumstances and situation, thus you are strongly advised to seek the assistance of a qualified lawyer to complete it.

**Additional legal information is provided at the end of this document.**

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**SAMPLE TERM SHEET CONVERTIBLE LOAN AGREEMENT**

|  |  |
| --- | --- |
| **Loan Amount** | [*fill in amount*] |
| **Interest Rate[[2]](#footnote-3)** | [*fill in rate*] |
| **Repayment** | At once, following expiry of the term or, following an event of default, unless a conversion event occurs. |
| **Term[[3]](#footnote-4)**  | [*fill in duration*] |
| **Discount Rate[[4]](#footnote-5)** | [*fill in rate*] |
| **Valuation Cap[[5]](#footnote-6)** | [*fill in amount*] |
| **Conversion Events** | 1. Automatically in the event of a qualified financing, meaning an issue of shares against payment of an amount of at least € 250,000[[6]](#footnote-7). In the event of a qualified financing larger than € 950,000[[7]](#footnote-8), the Lender will have the option to either convert or apply for repayment, as reported under Article 6.1 of this Agreement.
2. Automatically in the event of a takeover, meaning an event resulting in a change of control of Borrower or a transfer of all or substantially all of the Borrower’s assets.
3. Upon request of the majority of the lenders, following expiry of the term.
 |
| **Lenders’ Rights** | The prior approval of the majority of the lenders will be required for:1. dividend payments or any distribution on or redemption of shares;
2. obtaining loans;
3. granting right of pledge on, sell or otherwise transfer or encumber a material part of the assets of Borrower.

In addition the Borrower shall provide the Lender with:1. a copy of its financial statements;
2. information once an amendment of its articles of association has been effectuated; and
3. all information the Lender reasonably requires from time to time.
 |
| **Events of Default[[8]](#footnote-9)** | 1. If the Borrower fails to properly or timely perform one or more of its obligations;
2. if an insolvency situation arises; or
3. in the event an attachment is levied on a material part of the assets of the Borrower.
 |

**SAMPLE CONVERTIBLE LOAN AGREEMENT**

**THIS AGREEMENT**is made on [*date/month/year*] by and between:

1. [*your company name*], a[*type of company*] organized and existing under the laws of [*country of incorporation*], having its corporate seat in [*registered address of the company head office*] and registered with the Trade Register of the Chamber of Commerce under number [*trade register number*] (hereinafter referred to as the “**Borrower**”),

and

1. [[9]](#footnote-10)[*company name of the lending entity*], a[*type of company*] organized and existing under the laws of [*country of incorporation*], having its corporate seat in [*registered address of the company head office*] and registered with the Trade Register of the Chamber of Commerce under number [*trade register number*] (hereinafter referred to as the “**Lender**”);

OR

1. [[10]](#footnote-11)[ *full name of the lender*], an individual, born in [*birth place*] on [*date of birth*] and residing at [*registered residence address*] holder of a valid [*passport nationality*] passport with number [*passport number*] (hereinafter referred to as the “**Lender**”);

Borrower and Lender are hereinafter jointly referred to as “**Parties**” and each one individually as “**Party**”,

**WHEREAS:**

1. The Borrower conducts a business in the field of [*fill in description of the business carried on, or proposed to be carried on by the Company*].
2. The Borrower is in need of funding in order to finance its business and the Lender is willing to provide the Borrower with a convertible loan subject to the terms and conditions laid down by this agreement (hereinafter referred to as the “**Agreement**”).
3. This Agreement is one of a series of convertible loan agreements entered or to be entered into by the Borrower with lenders with identical terms and in the same form as set forth herein, except that the loan amount and date of issuance may differ.

THE PARTIES HAVE AGREED AS FOLLOWS:

# definitions

## Unless otherwise stated or defined, the following terms shall have the following meaning for the purposes of this Agreement:

|  |  |
| --- | --- |
| **Conversion Amount:** | the Loan (as defined under Article 2.1) plus accrued interest; |
| **Conversion Shares:** | [*fill in type of shares*] shares in the share capital of the Borrower to be issued to the Lender and/or (one or more) other lenders;  |
| **Conversion Price:** | (i) with respect to a conversion pursuant to a Qualified Financing, the lower of (A) the price paid per Share in the Qualified Financing multiplied by the result of 1 minus the Discount, and (B) the price per Share resulting from the Valuation Cap multiplied by the resultof 1 minus the Discount and then divided by the Fully Diluted Capitalization immediately prior to the closing of the Qualified Financing;(ii) with respect to a conversion pursuant to a Take-over, the lower of (A) the price paid per Share in the Take-over multiplied by the result of 1 minus the Discount, and (B) the price per Share resulting from the Valuation Cap multiplied by the result of 1 minus the Discount and then divided by the Fully Diluted Capitalization immediately prior to the closing of the Take-over; and(iii) with respect to a conversion pursuant to Clause 4.2 (conversion on or after the Maturity Date), the lower of (A) (when different from zero) the last price paid per Share over the 12 months prior to the Maturity Date, multiplied by the result of 1 minus the Discount, and (B) the price per Share resulting from the Valuation Cap multiplied by 1 minus the Discount and divided by the Fully Diluted Capitalization on the Maturity Date; |
| **Discount:** | [*fill in percentage rate*]; |
| **Fully Diluted Capitalization:** | the number of Shares on a fully-diluted basis, including (i) conversion or exercise of all securities convertible into or exercisable for Shares, and (ii) exercise of all outstanding options to purchase Shares under a stock option plan or otherwise, but excluding, for this purpose, the conversion contemplated by any Loan Convertibles; |
| **Loan Convertibles:** | the convertible loan agreements entered or to be entered into by the Borrower with lenders with identical terms and on the same form as set forth herein, except that the loan amount and date of issuance may differ; |
| **Shares**: | ordinary (or common) shares in the share capital of the Borrower; |
| **Qualified Financing:** | issue of Shares in the share capital of the Borrower, against payment of an amount of at least € 250,000,[[11]](#footnote-12) in one or more installments (excluding the aggregate amount of any Loan Convertibles converted in connection with such share issue);  |
| **Lender Majority:** | one or more lenders that alone or together represent the majority of the outstanding loan amounts of all Loan Convertibles at the time the majority is formed; |
| **Take-over:** | a (i) liquidation, legal merger, legal division, sale of Shares, issuance of Shares or listing of Shares on the stock market as a result of which the shareholders immediately prior to such transaction no longer hold the majority of the voting power of the share capital of the Borrower, or (ii) transaction pursuant to which all or substantially all of the assets of the Borrower are transferred; |
| **Maturity Date:** | the date [*fill in number*] years following the date of signing of this Agreement; |
| **Valuation Cap:** | [*fill in amount*]; |
| **Event of Default**: | the following situations shall result in an event of default:if the Borrower fails to properly or timely perform one or more of its obligations pursuant to this Agreement vis-à-vis the Lender and – following being summoned and given a term of at least 7 days to remedy such failure – has not remedied such failure;if the Borrower is declared bankrupt, files a petition for the suspension of payment, files for its own bankruptcy or is subject to other insolvency proceedings; or in the event an attachment is levied on (which is not withdrawn within 20 days of it being imposed) or the transfer of a – at the sole determination of the Lender – material part of the assets of the Borrower. |

# the loan

## The Lender hereby agrees to grant the Borrower a loan in the amount of [*fill in amount*] (hereinafter referred to as the “**Loan**”).

## The Lender shall make the Loan available to the Borrower ultimately [*fill in number*] days after the signing of this Agreement by payment into the Borrower’s bank account with [*name of the bank*] and bank account number [*bank account number*], or into any other bank account as specified for that purpose by the Borrower.

# interest

## Interest shall be due on the outstanding sum of the principal amount and interest accrued thereon at a rate of [*fill in percentage amount*] per annum.

## The interest shall accrue on a daily basis as per the date of signing of this Agreement and shall be calculated on the basis of the actual number of days elapsed and a year of 365 days.

## Interest shall only become due upon repayment of the Loan or at conversion.

# conversion

## Upon closing of either (i) a Qualified Financing or (ii) a Take-over, the Conversion Amount will be converted into that number of Conversion Shares equal to the quotient obtained by dividing the Conversion Amount by the applicable Conversion Price.

## Unless earlier converted pursuant to Article 4.1, at the discretion of the Lender Majority at any time on or up to 6 months after the Maturity Date, the Conversion Amount will be converted into that number of Conversion Shares equal to the quotient obtained by dividing the Conversion Amount by the applicable Conversion Price.

## The Borrower shall as soon as possible, but no later than 20 working days after the event that triggered the conversion, by execution of a notarial deed of issue procure that the relevant Conversion Shares will be issued to the Lender.

## The number of Conversion Shares shall be rounded down to the nearest whole number. The part of the Conversion Amount that will not be converted into Shares because of the aforementioned rounding, will be paid in cash back to the Lender before issuing the Shares to the Lender.

## The issue price for the Conversion Shares shall be paid by way of set-off against the Conversion Amount. In the event such payment by way of set-off is higher than the nominal value of the Conversion Shares, the remainder shall be considered share premium.

# shareholders agreement

## The Lender understands and agrees that prior to or coinciding with the moment of conversion, the Lender shall adhere to the Borrower’s Shareholders Agreement, if there is one in place.

# REPAYMENT

## In the event of a Qualified Financing, which exceeds an amount of [*fill in amount*], the Lender has the option to either convert the Conversion Amount into Conversion Shares or to apply for repayment of the Loan plus accrued interest, unless such repayment would constitute a threat to the financial health of the Borrower in a way that it would trigger an Event of Default.

## In the event that the Lender Majority has not decided to exercise its conversion option following the Maturity Date as described in Article 4.2 within 6 months from the Maturity Date, the Borrower shall repay the Loan plus accrued interest, unless the repayment would constitute a threat to the financial health of the Borrower in a way that it would trigger an Event of Default.

## In addition, the Loan plus accrued interest shall become fully and immediately due and payable upon request of the Lender, without any warning, default notice or legal intervention being required, upon the occurrence of an Event of Default.

# WARRANTIES

## In connection with the transactions provided for under this Agreement, the Borrower hereby represents and warrants to the Lender that:

### The Borrower is a company duly organized and validly existing under the laws of [*fill in country of incorporation*] and having all requisite corporate power and authority to carry out its business as now conducted;

### all corporate actions have been taken on the part of the Borrower, its directors and shareholders, which are necessary for the authorization, execution and issuance of this Loan, which shall constitute a valid and legally binding obligation on the side of the Borrower and therefore enforceable against the latter in accordance with its terms;

### the Borrower has provided to the Lender any information which is material to a lender granting a (convertible) loan, and that this information is true, accurate and not misleading;

### all intellectual property rights which are, or are likely to be, material to the business of the Borrower are, comprehensively and free of encumbrances, vested in the Borrower.

# COVENANTS

## As long as the Borrower has any outstanding obligations vis-a-vis the Lender pursuant to this Agreement, the Borrower shall **not** directly or indirectly take any of the following actions without the prior written consent (including via e-mail) of the Lender Majority:

### pay or declare any dividend or make any distribution on Shares or redeem any Shares in the share capital of the Borrower;

### obtain any loans; and

### grant a right to pledge on, sell or otherwise transfer or encumber a material part of the assets of Borrower.

## As long as the Borrower has any outstanding obligations vis-a-vis the Lender pursuant to this Agreement, the Borrower shall:

### provide the Lender with a copy of its financial statements, including a balance sheet, profit-and-loss account and explanatory notes in respect of the said financial year, as soon as these are available, and in any event within 6 months following the end of the financial year;

### inform the Lender immediately once an amendment of its Articles of Association has been enacted; and

### upon request by the Lender, provide the Lender with all information the Lender reasonably requires from time to time.

### **CONFIDENTIALITY**

## All Confidential Information concerning the Borrower and each of the parties, disclosed by one party to the other party or the Company (whether oral, written or embodied in any other form) together with this agreement's existence and its terms, are confidential and will only be disclosed by a party:

## After having obtained the written consent of the other Party, such consent not unreasonably withheld;

## On a confidential basis to an officer, employee, or professional adviser, for the purpose and within the scope of the duties of the latter;

## As required by applicable law or any court or governmental agency, after consulting with the other Party to the extent reasonably possible about the form and content of the disclosure; or

## As required in connection with the implementation and enforcement of this agreement.

# 10. MISCELLANEOUS

## This Agreement, the documents referred to or incorporated in it, and the agreements resulting therefrom constitute the whole agreement between the Parties relating to the Loan, and supersede any prior arrangements, understandings or agreements between them, oral or written, explicit or implied, in relation to the subject-matter hereby covered.

## If any (or part of any) provision of this Agreement is found to be invalid, unenforceable or illegal by a competent court, the rest of the provisions of this Agreement shall remain in force. If any invalid, unenforceable or illegal provision would be valid, enforceable or legal if some part of it were deleted or modified, that provision shall apply with whatever modification is necessary to give full effect to the intention of the Parties.

## Any notice to be given by a Party pursuant to this Agreement shall be in writing (including by e-mail) and shall be sent to the address of the applicable Party as set out in the preamble to this Agreement. Each Party may change its address by giving notice to the other Party.

## This Agreement may only be amended by agreement of both Parties in writing.

## This Agreement shall be governed by [*fill in applicable law*]. Any disputes arising from or in connection with this Agreement shall exclusively be referred to the competent court in [*fill in court name and location*].

This Agreement was signed on the date first written above.

|  |  |
| --- | --- |
| [*Lender*]Represented by:[*Signatory name*] \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ [*Month/date/year*] | [*Borrower*]Represented by:[*Signatory name*] \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |

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1. See page 10 for full Legal Disclaimer [↑](#footnote-ref-2)
2. The convertible loan accumulates interest for the time period between when you sign it and when it converts. The rate is part of the overall amount during the next funding round. [↑](#footnote-ref-3)
3. How long the convertible loan has to mature, which is normally at least 24 months. [↑](#footnote-ref-4)
4. A percentage reduction at which the convertible loan will convert compared to the next qualifying round. [↑](#footnote-ref-5)
5. The maximum pre-money valuation against which convertible loan will convert into equity. [↑](#footnote-ref-6)
6. Suggested amount only. [↑](#footnote-ref-7)
7. Suggested amount only. [↑](#footnote-ref-8)
8. A specified condition or set of conditions, which trigger a demand of payment by a lender. [↑](#footnote-ref-9)
9. Use if the lender is a company. [↑](#footnote-ref-10)
10. Use if the lender is an individual. [↑](#footnote-ref-11)
11. Suggested amount only. [↑](#footnote-ref-12)