

KSTC Convertible Note – An Overview

Note: The following information is intended to be used as a guideline only. All terms and conditions described below may change from time to time at KSTC option.

STRUCTURE

- The Convertible Note (Note) always requires repayment. This is an investment option not a grant, and is not “forgivable.”
- The Note must be signed and delivered within 3 months of KSTC Board Approval. If not, the award offer will expire.
- The Note begins as an unsecured debt (loan) which can be repaid in cash or, at KSTC’s option, may be converted into equity (shares or units) in lieu of cash repayment.
- Funds must be spent within the approved contract term. No funds can be used for expenses incurred prior to the execution of the Note.

REPAYMENT OPTIONS

Cash:

- The Repayment Amount equals the funds disbursed under the award plus a 10% interest rate compounded annually.
- Repayment is required, in full, no later than 36 months from the date of the contract unless otherwise agreed upon by KSTC.

Conversion:

- The Repayment Amount is calculated using the same method as the Cash Repayment Option.
- If the company is raising capital through a qualified round of financing KSTC may agree to convert the Repayment Amount into the open security offering at a discount. Currently a 40% discount is applied for the conversion option; for example, if the company offered an available security for \$1/share KSTC would convert the repayment amount at a value of \$.60/share.
- If the company is not raising capital through a qualified round of financing KSTC may still agree to convert the Repayment Amount into the senior-most equity security authorized by the company and will do so based on a pre-determined valuation price (typically \$1,000,000). Higher valuations to be mutually agreed upon and based on 3rd party market validation.

Combination:

- With KSTC’s approval the Repayment Amount may also be satisfied by a combination of cash repayment and equity.

DISBURSEMENTS

- Upon signing the contract, 70% of the current year’s funding is disbursed.

- When sufficient progress is made upon deliverables and after a confirmation visit by KSTC, then the other 30% will be disbursed.
- If the convertible note is broken down into two consecutive years (as in the case of a Rural Innovation Fund Level 2) the 70%/30% process will be the same for the second year as with the first.
- Company must maintain detailed receipts and records that support all expenses covered by KSTC funds.

REPORTING

- All budgeting and reporting must be prepared according to Generally Accepted Accounting Practices (GAAP).
- Quarterly progress reports and financial statements are required.

TERMINATION AND EFFECTS

- Either party may terminate the agreement with 30 days written notice; any unspent funds must be returned to KSTC. KSTC may terminate the agreement if:
 - Awardee fails to meet performance against deliverable and budget criteria;
 - Awardee breaches its agreements with KSTC, e.g. Note is callable if principal leaves or joins a competitor; or
 - Awardee does not maintain statutory compliance.
- Upon termination KSTC reserves the option to accelerate the Repayment Amount due date and may call the balance immediately due and payable in full.