Simple Convertible Agreement for Loan to Equity (SCALE)

Funded by the European Union. Views and opinions expressed are however those of the author(s) only and do not necessarily reflect those of the European Union or EISMEA. Neither the European Union nor the granting authority can be held responsible for them.

This Simple Convertible Agreement for Loan to Equity ("**Agreement**") is entered into on [date], by and between:

1. [Investor.name], a company incorporated in [Country], with company number [company.number] and registered address [•] ("**Investor**"), and
2. [Company.name], a company incorporated in [Country], with company number [company.number] and registered address [•] ("**Company**"), and
3. [Founder1.name], domiciled in [Country] at [address] ("**Founder 1**"), and
4. [Founder2.name], domiciled in [Country] at [address] ("**Founder 2**").

Founder 1 and Founder 2 are hereinafter jointly referred to as the "**Founders**".

Investor, Company and Founders are hereinafter jointly referred to as the "**Parties**".

1. Definitions and parameters

Loan Amount	means EUR [loan.amount]
Interest Rate	means [interest.rate.value] %
Maturity Date	means the date falling on the lapse of [number.of.months] after the date of this Agreement
Post-Money Valuation Cap	means EUR [cap.amount]
Discount	means [discount.amount] % below the price per share paid by new investors in the Qualified Financing
Qualified Financing	means equity financing in which the Company raises at least EUR [qualified.financing.minimum.value] from new investors.
Liquidity Event	means any of the following: a. a sale of all or substantially all of the Company's shares or assets; b. a merger or similar transaction resulting in a change of control; or c. an initial public offering of shares in the Company on any recognised stock exchange or multilateral trading facility.
Conversion Shares	means the shares issued upon conversion.
Fully Diluted Capitalization	means the sum of, calculated immediately prior to the Qualified Financing, Liquidity Event or Maturity Date, as applicable, on an as-converted basis and without double-counting: a. all shares of the Company currently issued and outstanding; b. all shares reserved for issuance under any existing or proposed employee stock option plan (ESOP); and c. all shares issuable upon conversion of this Agreement and upon the exercise or conversion of any outstanding warrants, options or other convertible instruments (SAFE/SCALE/CLA etc.) upon the occurrence of Qualified Financing, a Liquidity Event or the Maturity Date, as applicable.

	Provided, however, that, in each case, Fully Diluted Capitalization shall exclude any shares to be issued to new investors in Qualified Financing.
Post-Money Valuation Cap	means the maximum post-money valuation used to determine the Valuation Cap Price.
Valuation Cap Price	means the price per share implied by dividing the Post-Money Valuation Cap by the Company's Fully Diluted Capitalization.
Discount Price	means the price per share paid by new investors in Qualified Financing, multiplied by (100% minus the Discount).
Conversion Price	means: a. in the event of a Qualified Financing, the lower of: i. the Valuation Cap Price; and ii. the Discount Price; or b. in the event of a Liquidity Event or on the Maturity Date, the Valuation Cap Price.
Investment Amount	means the Loan Amount together with all accrued interest.
Material Breach	means a breach of this Agreement consisting of (i) using any part of the Loan Amount other than as permitted under Clause 3, or (ii) failing to complete a required conversion in accordance with Clause 5.

2. Loan

The Investor agrees to lend the Company the Loan Amount. The funds shall be transferred within [number.of.days] days after signing this Agreement to the Company's bank account number [bank.account.number].

3. Purpose and use of funds

The Loan Amount shall be used solely for legitimate business purposes, including product development, commercial activities, payroll, and general operating expenses in the ordinary course of business.

4. Interest and withholding tax

4.1. The Loan shall bear an annual Interest Rate calculated on a **non-compounding basis**. Interest shall accrue on the outstanding Loan Amount from the date the funds are transferred to the Company's account until the date of conversion or repayment in full.

4.2. Any accrued but unpaid interest shall be capitalised and added to the principal Loan Amount solely upon conversion. The aggregate amount shall convert into Conversion Shares in accordance with this Agreement, and no interest shall be payable in cash.

4.3. Furthermore, for the purposes of conversion, the Investment Amount shall be reduced by the amount of any withholding tax that the Company is required to withhold and pay in connection with the conversion, to the extent applicable.

5. Conversion events

5.1. Qualified Financing (Automatic conversion)

Upon completion of a Qualified Financing, the Investment Amount shall be converted into the same class of shares issued in that financing (the Conversion Shares) at the Conversion Price.

5.2. Maturity conversion

If no Qualified Financing or Liquidity Event has occurred by the Maturity Date, the Investment Amount shall be converted into the most senior class of shares at the Conversion Price unless the Investor elects one of the following:

5.2.1. An extension for an additional [number.of.months] months on the same terms; or

5.2.2. Assignment of the Loan or the conversion right to:

5.2.2.1. an existing shareholder;
5.2.2.2. an existing investor; or
5.2.2.3. another person with the Company's prior written consent (not to be unreasonably withheld).

5.3. Investor election notice

Any election under Clauses 5.2.1–5.2.2 above must be made by written notice to the Company at least 15 business days prior to the Maturity Date. If no election is made, the Company shall promptly initiate and execute the conversion and issue the Conversion Shares.

5.4. Liquidity Event

If a Liquidity Event occurs before the Investment Amount has been converted, the Investment Amount shall be converted into the most senior class of shares outstanding immediately prior to the transaction (ignoring any class created for the Liquidity Event) at the Conversion Price, immediately prior to completion of the Liquidity Event.

5.5. Conversion obligations

Whenever a conversion is required by this Agreement, the Company and the Founders shall promptly take all necessary legal and factual actions to validly issue the Conversion Shares at the Company's cost (e.g. convening a shareholders' meeting, passing the relevant resolutions, updating the relevant register, and making all required filings).The Investor shall take all necessary legal and factual actions to subscribe for those shares.

6. No repayment

6.1. The Investor has no right to receive repayment of the Investment Amount in cash, and the Company has no repayment obligation, except as follows:

6.1.1. if the Company enters insolvency, bankruptcy, liquidation, or any other dissolution process (whether voluntary or compulsory) prior to conversion, the Investment Amount shall become immediately due and payable, and the Investor shall rank as an unsecured creditor of the Company in accordance with applicable law (in such circumstances, no conversion shall occur), pari passu with the holders of all outstanding convertible instruments (SAFE/SCALE/CLA etc.); or

6.1.2. the Company and/or the Founders have committed a Material Breach of this Agreement.

7. Conversion terms

7.1. Conversion mechanics

7.1.1. Conversion shall be deemed to occur immediately prior to the completion of the relevant conversion event.

7.1.2. The Company shall calculate the number of Conversion Shares and provide the Investor with a written calculation at least 5 business days before the conversion event.

7.1.3. The Company shall issue the Conversion Shares within 20 business days after the conversion event.

7.1.4. No fractional shares shall be issued; fractional entitlements shall be rounded down.

7.1.5. Until the issuance of the Conversion Shares, the Investor shall not have any shareholder rights.

7.2. Rights of the Conversion Shares

7.2.1. Upon conversion pursuant to Qualified Financing, the Investor shall receive the same class of shares issued in such Qualified Financing, carrying the same rights as all other holders of that class.

7.2.2. Upon conversion on the Maturity Date, the Investor shall receive the most senior class of shares outstanding immediately prior to the Maturity Date.

7.3. Accession to the shareholders' agreement

Upon conversion, the Investor shall accede to the Company's then-current shareholders' agreement, if any.

8. Most Favoured Nation

If, prior to the conversion of the Investment Amount, the Company issues any subsequent convertible instrument with conversion terms (Valuation Cap and Discount, whether on a pre-money or post-money basis) that the Investor reasonably determines to be more favourable

than the terms of this Agreement (including a lower Post-Money Valuation Cap or a higher Discount), the Investor may, by written notice to the Company within 20 business days after receiving notice of such issuance, elect to replace the corresponding conversion terms of this Agreement with those of the subsequent instrument.

9. Protection of Company Information

The Investor shall keep all non-public information received from the Company strictly confidential and shall not disclose it to any third party without the Company's prior written consent, except to its professional advisors, limited partners or members of the relevant investment syndicate (in each case, provided that they are informed of the confidential nature of the information and are subject to confidentiality obligations), or as required by law. This obligation shall survive the termination of this Agreement for a period of [number.of.years] years.

10. Representations

10.1. The Company and the Founders

The Company and the Founders represent that the Company is validly incorporated; that they have the authority to enter into this Agreement; that this Agreement does not conflict with the Company's articles or applicable law; that all consents required under the Company's articles or applicable law have been obtained for entering into this Agreement; and that the Company is not insolvent.

10.2. The Investor

The Investor represents that it understands the high-risk nature of early-stage investments, is permitted to enter into this Agreement, and that all funds comply with applicable AML laws.

11. Miscellaneous

11.1. Any amendments require the written consent of both Parties.

11.2. Notices may be delivered by email and are effective upon sending.

11.3. Governing law: Company's country of incorporation.

11.4. The courts of the city in which the Company has its registered seat shall have exclusive jurisdiction.

Signatures

Company	Investor
Name:	Name:
Title:	Title:
Date:	Date:

***Legal notice**: This document and the accompanying annotations are provided for general informational purposes only and do not constitute legal, financial, or tax advice. The use of this agreement involves complex legal and tax implications that vary by jurisdiction. You shall consult with a qualified legal professional and a certified tax advisor to review and tailor this document to your specific circumstances before execution.*