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EQUITY THRU EFFORTS COMPENSATION TOOL NOTE

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Quick Summary: Excel Tool_ Deferred Equity Compensation using a Convertible Note

Abstract:

A convertible note is a method to defer payment for services. An Excel™ tool can be downloaded from this article. It is described in detail in Article 5.050102, "Equity Through Efforts." The filename is Consultant Compensation – Convertible Note.xls.

The tool allows users to enter work items from outside partners and the associated compensation for each effort. Initial payments can be recorded, with the remaining amount deferred until an equity round occurs. The tool calculates the number of shares and the equity percent for each partner/contributor after an equity financing round has closed. The tool contains example data that can be replaced by actual data supplied by the user. Article 5.050102, "Equity for Efforts" describes the advantages of using Convertible Notes or SAFE instruments to compensate outside resources.

Date	Contributor	Work Item	Total \$	\$ Paid Upfront	\$ Deferred (Note)
6/15/2023	Alpha Development	Initial requirement definition	\$2,000	\$1,000	\$1,000

Below are the tool variables and calculated values.

Tool Variables	Calculated Values
Annual Noteholder Interest Rate	Implied Company Valuation
Share Price Discount from Equity Round	Equity Ownership Shares
Equity Round Date or Maturity Date	Equity Owners \$/Share
Outside Investor Equity Investment	Noteholder \$/Share
Corresponding Investor Equity Ownership	Noteholder Shares
Total Company Shares (arbitrary)	Noteholder Equity

The tool summarizes the number of shares and percentage ownership calculated for each contributor.

This model is simplistic, and other terms need to be considered. Its only intent is to describe convertible notes as a method to defer compensation more fully. A financial professional and an attorney experienced in startup financing and investor interactions should be retained to finalize and formalize this approach before any commitments are made to potential contributors/partners.