

# Reloadable Note™

## Frequently Asked Questions (FAQ)

Reloadable Note™ FAQ Version RLN 4.1

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## Provisions

For a list of non-modifiable core provisions and permitted deal-specific customizations, see the “Core Provisions” and “Permitted Customizations” sections of the Reloadable Note™ Standardized Version RLN v4.6. The template governs in case of any conflict.

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## 1. What is the Reloadable Note™?

The Reloadable Note is a structured early-stage financing instrument engineered to combine the simplicity of a short-form convertible note with the discipline of event-based cash flows and clearly defined conversion mechanics. It provides predictable dilution for founders, contractual downside protection for investors, and a clean capitalization profile for future financing rounds. Economically, it behaves like a convertible note with event-triggered distributions and an option to convert or “reload” into equity at a fixed valuation cap during specific financing or liquidity events.

## 2. How is the Reloadable Note different from a SAFE?

SAFEs are lightweight IOUs with no maturity, no repayment schedule, and minimal interaction with other SAFEs. As a result, they are often stacked in large numbers, which creates unpredictable dilution when they eventually convert. The Reloadable Note has event-based proceeds participation, a fixed valuation cap, protective covenants, a credit waterfall, and a valuation discipline that restricts the issuance of cheaper or conflicting equity-linked instruments without the protections and elections set out in the Note (including any applicable consent, MFN, or no-better-terms mechanics), and these mechanics are designed to stop SAFE-style stacking and to maintain a stable, modelable cap table for founders and new investors while still accommodating clean priced preferred rounds and senior bank or venture debt.

## 3. Is the profit share a monthly skim or ongoing drain on cash flow?

No. The profit share (Event Proceeds Participation) is not a monthly skim, royalty, or revenue-based financing obligation. It is strictly event-based. It only activates when there is a defined Financing Event or agreed Performance-Based Event, such as a priced equity round, a qualified bridge with fresh capital, an exit, or a revenue or time milestone listed in the note. At those events, a capped percentage of the event proceeds is allocated to the note holder before being optionally reloaded into equity. There are no monthly payments and no impact on operating runway.

## 4. Does the Reloadable Note require any scheduled or recurring payments?

No. There are no scheduled interest payments, amortization schedules, or recurring cash obligations tied to the Reloadable Note. Distributions occur only at Financing Events or agreed Performance-Based Events and are explicitly subordinated to bona fide transaction expenses and regulatory fees. If the company does not raise further capital or exit, there are no interim cash payments due under the note.

## 5. What is Event Proceeds Participation and how is it capped?

Event Proceeds Participation (EPP) is the investor’s contractual right to receive a defined share of the cash proceeds from defined events - Financing Events or agreed Performance-Based Events - rather than from ongoing revenue. EPP is capped by the Event Proceeds Participation Multiple set out in the executed Note (see Exhibit B). Once the agreed multiple is reached, further Event Proceeds Participation obligations cease, except to the extent the Investor elects to reload and reconvert distributions into equity as provided in the executed Note. This cap prevents the profit share from running indefinitely and preserves predictability for both founders and investors.

## 6. What does “reload” mean, and how often can it be used?

Reloads may occur only at Financing Events and are issued pursuant to the executed Note; in a Qualified Institutional Priced Equity Financing (QIPEF), reload issuances are issued into the same class of securities as the new-money round (see Exhibit A). This ensures the reload right cannot be exercised indefinitely and prevents creeping control or unbounded ownership growth.

## 7. Are the economics (cap plus reload) too investor-friendly?

Investors benefit from a fixed valuation cap and the ability to recycle event proceeds into equity, but these rights are deliberately bounded. Reloads are limited to Financing Events and are issued pursuant to the executed Note; in a Qualified Institutional Priced Equity Financing (QIPEF), reload issuances are issued into the same class of securities as the new-money round (see Exhibit A). Reload purchases are capped by the Equity Rights Cap Percentage unless the parties mutually agree otherwise in writing. Event Proceeds Participation is capped by the Event Proceeds Participation Multiple set out in the executed Note (see Exhibit B), and any reload-related equity issuance is capped by the Equity Rights Cap Percentage unless the parties mutually agree otherwise in writing. Together, these guardrails ensure that investors cannot indefinitely buy at “yesterday’s price” or accumulate control outside normal round dynamics.

## 8. Does the cap anchor or distort the pricing of the equity round?

No. In a Qualified Institutional Priced Equity Financing (QIPEF), conversion is calculated at the Valuation Cap as set out in Exhibit A. The per-share price at the Valuation Cap is calculated as:  $\text{Valuation Cap} \div \text{Fully Diluted Share Count}$  immediately prior to the Financing Event. Upon conversion, the Investor receives the same security sold in the QIPEF.

## 9. Does reload create creeping ownership or control outside the round?

No. The Reloadable Note is designed to prevent creeping control. Reloads may only occur at the closing of a Financing Event, and are issued pursuant to the executed Note; in a Qualified Institutional Priced Equity Financing (QIPEF), reload issuances are issued into the same class of securities as the new-money round (see Exhibit A). There are no rights to convert or reload between rounds. As a result, any increase in ownership happens transparently at Financing Events, and reload-related equity issuance remains bounded by the Equity Rights Cap Percentage unless the parties mutually agree otherwise in writing.

## 10. What exactly is the Founder Safeguard and how is it calculated?

The Founder Safeguard is a hard, quantitative threshold that prevents founder ownership from falling below a negotiated fully diluted percentage after a financing event. If converting the Reloadable Note in full would push founder ownership under this threshold, then, at the Company’s election (with board approval) and upon written notice to the Investor, a corresponding portion of the Investor’s conversion otherwise scheduled at that event is substituted with smart, timed Event Proceeds Participation instead of equity at that round. The Investor retains the right to reload that substituted amount at a future financing event, but founders avoid crossing a dangerous dilution boundary. The calculation is based on fully diluted capitalization immediately post-financing, including issued shares, options, and as-converted securities.”

## 11. Can the Founder Safeguard be automated in practice?

Yes. The Founder Safeguard can be implemented as a simple, mechanical check in the cap table model used at each financing. Once the model shows that full conversion would breach the agreed founder ownership threshold, the Company may elect (with board approval) to substitute the excess conversion amount with Event Proceeds Participation and will provide written notice to the Investor, as set out in the executed Note. Legal documentation then reflects this substitution in the closing papers and the Investor's ability to reload that amount at a later event. This keeps the safeguard objective, auditable, and easy for counsel and CEOs to apply.

## 12. Does the Reloadable Note create overhang or hidden seniority?

No. A common concern with novel instruments is that they create hidden seniority or timing risk that scares off future leads. The Reloadable Note addresses this by converting into the same series as the new round, at the financing close, with no interim or post-closing conversions. Once converted, the securities held by the note investor have no rights that are superior to or different from the round securities. This removes overhang risk and makes the capitalization stack straightforward for underwriters and later investors to evaluate.

## 13. Where does profit share sit in the liquidation and proceeds waterfall?

In the financing or liquidity event waterfall, proceeds are applied in a clear, ordered sequence that is transparent to leads and lenders. First, documented transaction expenses and regulatory fees are paid. Second, Permitted Senior Indebtedness, such as approved bank credit facilities, venture debt, or project finance that is expressly designated as senior, is paid in full. Third, amounts due under Event Proceeds Participation are paid to the Reloadable Note holder until the agreed multiple or cap is reached. Fourth, the Company may establish or replenish reasonable reserves for working capital and runway as approved by the board. Fifth, any remaining proceeds flow to shareholders according to the liquidation preference of the round securities, which can include founder and employee bonuses that are consistent with Company policy and any investor protective provisions. Once the note converts, the investor participates on an equal basis with the round securities.

## 14. What is the valuation floor and why is it so important?

The valuation floor is a covenant that, by default, prevents the Company from issuing new convertible or equity-linked capital at an effective valuation below the Valuation Cap (a "Below-Floor Issuance"), unless the Majority Investors consent in writing. It is intended to make true down-rounds and panic fundraising materially harder to execute, because any departure from that floor has to be negotiated and documented rather than slipping in through cheap side instruments. This protects both founder ownership and earlier investors' economics and forces more disciplined execution and fundraising. In practice, the floor is aimed at stopping panic or opportunistic deals that undercut the original risk and reward, not at blocking thoughtful recapitalizations that have been agreed with existing investors.

## 15. Why cannot Reloadable Notes be stacked like SAFEs?

SAFEs and simple notes are often stacked because they are light on economics, light on covenants, and do not define a clear place in the capital stack. That can create a confusing mix of caps, discounts, and side letters that is very difficult for later investors to model. The Reloadable Note is the opposite, because it embeds real economics, including event-based distributions, conversion rights, a valuation floor, and a defined place in the waterfall. If a company tried to stack multiple Reloadable Notes or similar instruments, their competing profit share claims, milestones, and seniority terms would collide and destabilize the cap table. For that reason, the instrument includes explicit covenants that prohibit issuing cheaper or structurally superior convertibles, SAFEs, or profit sharing instruments in the same lane, or attempting to rank them ahead of the Reloadable Note in the Event Proceeds waterfall, without investor consent. Clean priced preferred rounds and bona fide senior bank or venture debt remain permitted, provided they follow the agreed waterfall and conversion rules.

## 16. What happens if a founder tries to issue cheaper or conflicting instruments anyway?

If a founder attempted to issue cheaper or structurally superior convertibles, SAFEs, profit sharing instruments, or other equity-linked paper that conflicts with the Reloadable Note's economics or seniority, that issuance would violate the covenants embedded in the Note unless the Investor consented or the Reloadable Note were amended. In that scenario, the Investor would typically have the right to block the issuance, renegotiate the terms, or accelerate their rights under the Note. A straight bank line or a traditional priced equity financing at a higher valuation does not trigger this issue, because those are contemplated in the drafting and are compatible with the Reloadable Note. The structure is intentionally drafted so that opportunistic cheap paper is contractually visible and economically unattractive for a rational founder.

## 17. How does the Reloadable Note interact with existing SAFEs or convertible notes?

When a company already has SAFEs or other convertible notes outstanding, the recommended approach is to offer a standard exchange. Existing instruments can either be exchanged into Reloadable Notes on substantially similar terms or converted directly into the new round securities at the time of the financing. A before-and-after cap table and a simple exchange agreement template help clean up the stack so that, post-closing, the company is not carrying a mix of inconsistent instruments that create modeling and governance risk.

## 18. Do MFN and no-better-terms provisions handcuff future rounds?

MFN (most-favored nation) and no-better-terms covenants are designed to prevent side-letter chaos and protect existing investors from being disadvantaged by cheaper or richer instruments issued later. To preserve flexibility, these clauses typically carve out bona fide lead terms that apply to all round investors and any terms required by law, exchange rules, or regulators. In practice, this means the company can still negotiate custom board rights, information rights, or protective provisions with a lead, provided the economic core of the note is not undercut by superior economics granted to someone else.

## 19. How are minority noteholders protected from being steamrolled in amendments?

The Reloadable Note framework supports a governance model in which non-economic amendments can be approved by a majority in interest of noteholders, while any change that disproportionately and adversely affects a particular holder requires that holder's separate consent. This protects small or minority investors from targeted subordination or selective dilution, while still allowing the company and the majority to efficiently approve routine or non-prejudicial changes. A consent matrix in the data room can be used to show which decisions fall into each category.

## 20. How is the Reloadable Note treated for accounting purposes?

From an accounting perspective, the Reloadable Note is typically positioned as an equity-linked instrument with contingent, event-based distributions rather than a conventional interest-bearing loan. There is no stated periodic interest and no fixed amortization schedule. CFOs and auditors will generally look to the applicable GAAP or IFRS guidance for convertible instruments with contingent payout features. A short memorandum from the company's CPA firm, included in the data room, can outline the expected balance sheet classification and disclosure approach.

## 21. How is the Reloadable Note treated for tax purposes for the investor and the company?

For tax purposes, the Reloadable Note is treated similarly to a convertible note with performance-based payments. Event-based payments (Event Proceeds Participation / Performance-Based Payment Amount) amounts that are actually paid out are generally treated as ordinary income to the investor. Conversion of the note into equity is not a taxable event for either the investor or the company. Subsequent gains on equity are taxed as capital gains when realized. For the company, interest and profit share payments are typically deductible as ordinary business expenses, and reload tranches are treated as standard loan proceeds rather than separate taxable events.

## 22. Does the Reloadable Note raise securities or usury law concerns?

The Reloadable Note is drafted and positioned as an investment security with conversion rights, not as a high-yield loan. It has no fixed interest rate that compounds over time and no mandatory amortization schedule. Distributions are contingent on financing or liquidity events and are capped. As a result, the structure is designed to avoid recharacterization as a usurious lending arrangement. Counsel can further support this position by including explicit language that the instrument evidences an investment security and by adding state-level usury carveouts where appropriate.

## 23. Does this instrument increase legal or administrative costs compared to a SAFE?

While the Reloadable Note is more structured than a SAFE, it is intentionally drafted as a short, standardized instrument that legal teams can process efficiently. The core agreement typically runs six to seven pages with clearly defined terms and optional exhibits. For most companies, the incremental legal cost compared to a traditional convertible note or SAFE should be modest, particularly once counsel has seen the instrument once and can reuse their familiarity on subsequent deals.

## 24. Is the cap table modeling more complex?

Cap table modeling for the Reloadable Note is straightforward when supported by a premodeled worksheet that ties inputs to outputs. Because conversion occurs only at Financing Events or agreed Performance-Based Events, and the security type is determined by the executed Note (same class as the new-money round in a Qualified Institutional Priced Equity Financing; last-round preferred in a Liquidity Event, the model simply needs to apply the agreed formulas for conversion, profit share caps, and any Founder Safeguard adjustments. In practice, using one standardized instrument instead of a stack of different SAFEs and notes often reduces, rather than increases, cap table complexity.

## 25. What supporting materials should be in the data room when using the Reloadable Note?

To help leads and counsel underwrite the structure quickly, it is recommended to include a cap table worksheet with at least two scenarios, a waterfall diagram showing the ordering of payments and how the profit share cap is reached, a worked example of the Founder Safeguard, the MFN clause with explicit carveouts, and a template for exchanging legacy SAFEs or notes. These materials make the economics and governance effects of the note transparent and easy to diligence.

## 26. How does transferability and secondary trading work, and how are “cap table tourists” avoided?

Transfers of Reloadable Notes are typically restricted. Any transfer usually requires company consent and is subject to a right of first refusal in favor of the company or existing investors. Permitted transferees are generally limited to fund affiliates, entities under common control, and customary estate-planning vehicles. This framework provides flexibility for legitimate portfolio management while preventing the note from being sold into the hands of opportunistic secondary buyers who could complicate governance.

## 27. What is the operational and administrative burden of maintaining these notes?

Operationally, the Reloadable Note is designed to ride on the same workflows that already exist for financing or exit events. Notices, conversion calculations, and distributions are documented in the closing papers for the relevant round or transaction. There are no additional monthly or quarterly processes to manage. A simple closing checklist can map each required step for the notes to the standard set of closing documents, keeping administrative overhead low.

## 28. Does using a non-standard instrument like this signal desperation to investors?

Used poorly, unconventional structures can look like a company could not raise on standard terms. The Reloadable Note is positioned exactly the opposite way: as a disciplined, institutional response to the known weaknesses of SAFE stacking and unmanaged dilution. The instrument provides predictable dilution, avoids monthly cash drains, converts into the lead’s series, and keeps the cap table fully underwritable. When paired with strong fundamentals and precedent closings, the structure signals that the company and its investors are serious about governance and long-term alignment, not desperate for capital at any price.

## 29. How does the Reloadable Note help founders specifically?

The valuation floor gives founders and early investors a stronger position in negotiations by making down-round financing materially harder to complete without explicit investor consent, which encourages more disciplined capital strategy and execution. The instrument also reduces the risk of cap table chaos by preventing unsafe stacking and by encouraging cleanup of legacy SAFEs and notes. Overall, it gives founders a clearer path to scaling capital without sacrificing control or future financing quality.

## 30. How does the Reloadable Note help investors specifically?

Investors receive contractually defined downside protection through event-based profit share, a fixed valuation cap that rewards early risk, and the ability to reload proceeds into equity at that cap as the company grows. They also gain MFN and no-better-terms protection, pro rata rights in subsequent rounds, and strong covenants that prevent dilution from cheaper or structurally superior convertibles, SAFEs, or profit sharing instruments in the same lane. The result is a more balanced risk–return profile than a SAFE, without the overhang and timing risk that can accompany traditional convertible notes.

## 31. Can the note convert or reload outside a financing or liquidity event?

No. To preserve predictability and avoid mid-period cap table changes, conversion rights are limited to the closing of a Financing Event or an agreed Performance-Based Event (including any defined liquidity events), and reload rights are limited to the closing of a Financing Event. There are no rights to convert or reload on arbitrary dates. This event-driven design gives founders, investors, and downstream leads confidence that ownership will only recalibrate at clearly understood milestones.

## 32. How do profit share and reload interact in practice?

At a qualifying event, the company calculates the investor's profit share amount based on the agreed percentage of event proceeds and the remaining multiple or cap. The investor can then choose to take that amount in cash, to apply some or all of it to purchase equity at the original valuation cap, or to blend the two. Any amount reloaded increases the investor's equity position while reducing or extinguishing future profit share obligations. This interaction lets investors shift from downside-focused cash flows toward upside-focused equity as the company's trajectory becomes clearer.

### **33. When profit share converts into equity, which valuation is used?**

If Event Proceeds Participation is applied to purchase equity rather than paid in cash, the equity is purchased at the Valuation Cap, as set out in the executed Note, Section 5 and Exhibit A. The Investor may also waive a distribution in exchange for increased conversion at the Valuation Cap, as provided in the Note.

### **34. Why is this structure attractive to future institutional investors?**

Future institutional investors care most about three things: clean, predictable cap tables; transparent cash-flow rights; and alignment between founders and existing investors. The Reloadable Note directly addresses all three. It converts into the same class as the new round at a single event, has explicit waterfall ordering and capped profit share, and prevents stacked, conflicting instruments from accumulating on the balance sheet. These features make underwriting simpler, reduce the risk of hidden overhang, and signal that the company's early capital structure has been built with institutional expectations in mind.

### **35. Why does the Reloadable Note anchor early capital to a valuation framework instead of waiting for a priced round?**

Anchoring early capital to a valuation framework is what keeps the cap table underwritable and prevents dilution surprises. Waiting for a priced round while stacking "no valuation" instruments (caps plus discounts) does not eliminate dilution. It defers it and often compounds it. When the priced round finally happens, multiple capped and discounted instruments convert at once, option pools get resized, and the fully diluted ownership math can shift materially. That is how dilution shocks and cap table instability occur. The Reloadable Note uses valuation discipline to make dilution predictable, modelable, and transparent to founders and future lead investors, rather than allowing uncertainty to accumulate until it becomes a problem at the financing close.

### **36. How does Event Proceeds Participation reduce dilution risk while still rewarding early risk?**

Event Proceeds Participation (EPP) reduces the need to solve investor outcomes exclusively through conversion and equity issuance. Instead of every dollar of early return being expressed as additional equity, EPP allows a defined portion of proceeds from defined events (Financing Events or agreed Performance-Based Events) to be distributed, subject to the capped multiple or other cap set out in the executed Note and Exhibit B. This creates a structured interim return pathway that can reduce conversion-driven dilution pressure, while still preserving the ability to convert or reload into equity under the valuation terms agreed in the note. Properly bounded EPP improves cap table stability by reducing the likelihood of large, surprise equity conversions at the priced round.

### **37. Why does the Reloadable Note create “reload” behavior, and how does that help the cap table?**

Traditional venture investing is often a one-way loop: invest, wait, exit. The Reloadable Note introduces an alternative cycle by pairing structured event-based liquidity opportunities (EPP) with the option to reload those proceeds into equity at defined times and under defined terms. This can increase the likelihood of reinvestment because reloading is not purely speculative, it occurs after additional milestones and financing signal are visible. In practice, an investor may receive EPP proceeds at an event and elect to reload that amount, and in many cases commit incremental capital on top, because the risk profile has improved relative to the initial investment. This dynamic can support healthier cap table outcomes by reducing reliance on indefinite SAFE-style stacking, encouraging disciplined reinvestment through defined windows, and preserving cleaner underwriting optics for downstream institutional rounds.

### **38. What is the Equity Rights Cap, and why is it included as an explicit term?**

In a conventional priced equity round, the amount invested and the valuation implicitly determine the investor’s percentage ownership, which functions as a practical ownership ceiling for that purchase. However, in instruments with conversion optionality and complex mechanics (valuation caps, discounts, multiple instruments, option pool adjustments, and reload cycles), the ultimate equity outcome can diverge materially from what the original investment amount would suggest. The Equity Rights Cap is therefore included as an explicit founder-protection guardrail. It establishes a hard maximum on the instrument’s equity exposure, regardless of how conversion and reload mechanics would otherwise calculate, and functions as an anti-dilution backstop designed to prevent unintended dilution outcomes and cap table “conversion cliffs.”

### **39. Do downstream investors have to “buy out” early investors, and is EPP a cleaner way to provide liquidity?**

Early investors typically achieve liquidity through an exit, and in some cases through structured secondaries or recapitalisations as the company matures. Where interim liquidity is required, a properly bounded Event Proceeds Participation (EPP) framework can provide a defined, event-based pathway to partial returns without relying solely on equity-heavy conversions or ad hoc secondary transactions. When capped and tightly triggered, EPP can reduce conversion cliffs, improve cap table predictability, and present cleaner underwriting optics for downstream institutional rounds than discretionary equity buyouts.