

The Reloadable Note™

A Standardized, Founder-Friendly, Investor-Secure Replacement for the SAFE

Reloadable Note™ White Paper Version RLN 4.7
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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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Institutional Framework

The Reloadable Note™ is developed by Digerati Investments and administered through Reciprocity ROI. It is a next-generation private capital instrument designed to improve founder protection, investor liquidity, and regulatory alignment. Developed under Digerati's Full-Stack VC framework, the instrument represents the firm's strategic innovation in venture finance, integrating milestone-based conversion mechanics, reloadable capital tranches, and Event Proceeds Participation alignment between founders and investors.

Operational administration, including investor onboarding, KYC/AML, offering verification, and regulatory recordkeeping under SEC Regulation D and Exchange Act §17(a), is conducted exclusively through Reciprocity ROI LLC, the compliance and syndication arm. This separation ensures regulatory integrity and maintains clear distinction between Digerati's investment management activities and Reciprocity's evaluation and diligence functions.

Together, this dual-entity framework provides the governance backbone ensuring that innovation in structure is matched by rigor in compliance.

Executive Summary

The SAFE simplified early-stage financing but introduced systemic frictions: stacked instruments, unpredictable dilution at conversion, and weak downside protection for early backers. Those frictions undermine cap-table integrity and chill downstream institutional capital (Nathoo, 2018; Ashman, 2024). The Reloadable Note™, designed by Reciprocity ROI, addresses these shortcomings by combining (i) Event Proceeds Participation distributions that only activate at defined Financing Events or agreed Performance-Based Events, (ii) a fixed conversion cap (e.g., \$5M) exercisable only within the defined conversion windows in the executed Note, and (iii) event-based conversion windows that make dilution predictable for founders and future investors. The design aligns with empirical and theoretical work showing the benefits of staging, option-like convertibility, and transparent cash-flow rights in venture contracting (Gompers, 1995; Kaplan & Strömberg, 2003), and it reflects practical lessons from the widespread SAFE experience in the market. ([Y Combinator](#))

Institutional Overview

The Reloadable Note™ is a next-generation financing instrument designed to correct the structural weaknesses of SAFEs while preserving their simplicity. It establishes a disciplined, transparent framework that balances early-investor protection, founder preservation, and downstream investor clarity. Investors commit capital at a fixed valuation cap that confers a right, but not an obligation, to convert into a defined ownership percentage; they may take some equity upfront or hold 100% of their position in Event Proceeds Participation. Event Proceeds Participation activates only at defined Financing Events and agreed Performance-Based Events and is structured as a fixed share of event proceeds calibrated for scale, allowing investors to realize cash returns without draining operating capital. At each Financing Event, investors may elect to take Event Proceeds Participation distributions in cash or apply them toward the purchase of equity at the original Valuation Cap through the Reload Right. Conversion occurs only within the defined conversion windows in the executed Note and is memorialized in the financing documents, eliminating phantom obligations and surprise dilution. Investors conversion occurs only at defined events through event-based conversion windows their economic position at the original valuation cap, ensuring they are never dependent on founder discretion alone to realize equity, because conversion eligibility is tied to defined event windows.

Dilution for founders is staged, event-driven, and performance-linked, and the standardized short-form agreement is as easy to execute as a SAFE but adds clear Event Proceeds Participation mechanics, reload rights, and transparent conversion terms. An optional Founder Safeguard allows smart, timed Event Proceeds Participation to substitute for equity if aggregate dilution would otherwise breach an agreed threshold. *All figures in examples are illustrative and must be set per transaction.*

1) Background & Problem Statement

SAFE proliferation and stacking. Since YC introduced the SAFE in 2013, founders commonly “stack” multiple SAFEs across time. Even with YC’s post-money update, which increased ownership transparency, stacked SAFEs can still create conversion cliffs and surprise dilution when a priced round arrives (YC, 2018; YC, 2023). Industry operators repeatedly warn founders about “SAFE dilution traps” and mis-modeled caps/discounts (Ashman, 2024). Carta’s market data further show shifting dilution dynamics across stages, underscoring the need for instruments that make dilution more forecastable (Carta, 2024a; Carta, 2024b). ([Y Combinator](#))

Valuation anchoring and dilution cliffs.

Early-stage instruments that defer pricing (for example, stacked SAFEs and discounts) do not eliminate dilution, they defer it and often concentrate it into a single conversion moment. When multiple capped and discounted instruments convert simultaneously at the next priced round, the company can experience a conversion cliff driven by cap stacking, option pool adjustments, and differing conversion economics across instruments. This creates unpredictable fully diluted outcomes, founder dilution shock, and weaker underwriting optics for new institutional capital. The Reloadable Note mitigates this risk by anchoring conversion economics to a defined valuation framework, limiting the circumstances under which conversion and reload can occur to defined event windows, and allowing a portion of early investor outcomes to be satisfied through capped Event Proceeds Participation rather than equity expansion alone. The result is a more modelable cap table, reduced conversion cliff risk, and clearer downstream financing posture.

Contracting theory & staged finance. Academic work long ago explained why venture contracts rely on convertibility and staging: they mitigate agency problems, preserve monitoring leverage, and modulate risk over milestones (Gompers, 1995; Kaplan & Strömberg, 2003; Schmidt, 2001). The Reloadable Note™ operationalizes these lessons in a standardized, modern format: optional convertibility (an investor-controlled call on equity), staged activation (event-based proceeds participation and conversion), and explicit allocation of cash-flow rights. ([SSRN](#))

Revenue-linked structures: promise and pitfalls. Revenue-based financing (RBF) shows appeal as a downside hedge, yet monthly revenue skims can starve growth and, in some contexts, invite adverse selection or revenue-hiding responses (Russel, 2024). The Reloadable Note™ avoids continuous drains by deferring distributions to defined events, Financing Events or agreed Performance-Based Events - rather than monthly top-line skims, retaining the hedge without the operating-cash penalty (Nowak Lab, 2024) (Nowak Lab, 2024). ([SSRN](#))

Unlike SAFEs, which defer valuation only to trigger unpredictable dilution later, the Reloadable Note anchors investor economics at the original valuation without treating it as a forced company valuation, allowing founders to avoid premature pricing while maintaining clean, modelable conversion math.

2) Design Goals of Reloadable Notes

1. Founder-friendly liquidity profile. No monthly bleed; distributions trigger only at Financing Events or agreed Performance-Based Events.
2. Investor-secure downside. If no immediate conversion, investors still receive a contractual Event Proceeds Participation at events, creating interim cash returns.
3. Transparent to future VCs. Conversion occurs only at defined events and at a fixed cap; rights are memorialized in financing documents, limiting phantom overhang.
4. Simplicity & standardization. A 6–7 page instrument, SAFE-simple in execution but with better economics and clearer cash-flow rights.

These goals directly reflect contracting best practices: stage commitments, retain option-like conversion, and allocate cash-flow rights explicitly (Gompers, 1995; Kaplan & Strömberg, 2003). ([SSPE](#))

3) Instrument Overview (Mechanics)

Investment amount and cap. Example: Investor commits \$1M at a \$5M valuation cap.

Investment amount and cap.

Example: an investor commits \$1M at a \$5M Valuation Cap. The Valuation Cap is a pricing anchor that sets the maximum conversion price under the Note. It is not a guaranteed ownership percentage. The investor's ultimate as-converted ownership is determined at the applicable event based on the fully diluted capitalization at that time (including option pool sizing, other convertible securities, and the size and pricing of the round). Examples are illustrative only; the executed Reloadable Note governs. The cap is fixed regardless of later valuations. Conversion rights are embedded in the company's financing documents so new investors see precisely when and how the right can be exercised, no hidden side deals. (YC, 2018/2023). ([Y Combinator](#))

Defined Terms Used Here (plain English): *Institutional Investor = a venture capital fund, institutional fund, regulated investment firm, corporate venture capital investor, or other professional investor; Qualified Institutional Priced Equity Financing (QIPEF) = a Priced Equity Financing led by, or including as a material participant, one or more Institutional Investors; Priced Equity Financing = a priced round for cash; Event Proceeds Participation = event-only cash distributions per the Note; Reload = the option, at any Financing Event, to apply any Event Proceeds Participation distribution otherwise payable in cash toward the purchase of equity at the original cap; Liquidity Event = IPO or change of control. See the Note's Definitions for binding versions.*

Three operating modes (Investor election at signing).

At signing the Investor may elect, by notice to the Company, one of the following:

- Mode A (All Event Proceeds Participation, 0% Upfront Equity). Investor takes no equity at signing and holds 100% of exposure as Event Proceeds Participation under the Note.
- Mode B (Mixed). Investor takes, say, 10% equity equivalent at signing (measured against the Valuation Cap) and leaves the balance as Event Proceeds Participation.
- Mode C (All Equity at Cap). Investor takes the full Equity Rights Cap Percentage at signing.

Event Proceeds Participation structure. Event Proceeds Participation is a fixed percentage of event proceeds calibrated for scale, so it rewards early investors without choking growth capital. If an investor elects 100% Event Proceeds Participation, distributions continue until the agreed cap is reached, as set out in the executed Note and Exhibit B, and are capped by the Event Proceeds Participation Multiple (with any percentage-equivalent references used only as a modeling convenience, not as a governing limit). At any time before or after that threshold, investor may either keep distributions or reload into equity (below). (Nowak Lab, 2024; Russel, 2024). ([Drexel University](#))

Reload (recycle) option. At each Financing Event, the investor may (a) receive Event Proceeds Participation in cash or (b) reload eligible amounts into equity at the Valuation Cap, as set out in the executed Note, Section 5 and Exhibit A. This preserves the investor’s ability to scale ownership without overpaying at later valuations and mirrors the option-like conversion features that theory predicts. 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), and reload-related equity issuance remains bounded by the Equity Rights Cap Percentage unless the parties mutually agree otherwise in writing.” (Schmidt, 2001; Kaplan & Strömberg, 2003). ([SSRN](#))

Event-based conversion windows (predictability). Conversion may occur only at defined events—Financing Events or agreed Performance-Based Events (for example, priced rounds, exits, acquisitions, or specified revenue or time milestones). That eliminates arbitrary timing and “phantom equity bombs,” giving downstream investors a clean underwriting path (YC, 2018/2023; Carta, 2024a). ([Y Combinator](#))

4) Economic Properties

Founder liquidity profile. By deferring distributions to events with fresh capital, the instrument preserves operating cash. It avoids the month-to-month erosion seen in many classic RBFs (Nowak Lab, 2024). ([Drexel University](#))

Investor downside hedge. If the company is slow to scale, investors still receive event-linked cash returns. If it scales, the reload option lets them convert at the historical cap, capturing upside without paying the current, higher price (Schmidt, 2001). ([SSRN](#))

Downstream liquidity and cap-table efficiency.

Early investors typically achieve liquidity through an exit, and in some cases through structured secondaries or recapitalisations as a company matures. Where interim liquidity is provided prior to an exit, a properly bounded Event Proceeds Participation (EPP) framework can reduce reliance on discretionary secondary transactions or ad hoc cap-table “clean-ups” by providing a defined, event-based pathway to partial returns. When capped and limited to specified events, EPP can improve cap table predictability and downstream underwriting optics by reducing conversion cliffs and avoiding the need to concentrate all early investor outcomes into equity conversion alone.

Reinvestment behavior and capital continuity (reload effect).

The Reloadable Note is designed to support capital continuity by pairing interim, event-based liquidity opportunities with the option to reload eligible proceeds into equity under defined terms. Rather than a single binary outcome (invest, then wait indefinitely for a potential exit), the structure creates periodic checkpoints where investors can make follow-on decisions with improved information and reduced risk visibility relative to the initial underwriting. This dynamic can increase the propensity for disciplined reinvestment, including reloading Event Proceeds Participation and committing incremental new capital, while preserving cap table predictability through defined election windows and bounded mechanics.

Clean cap-table optics for future VCs. Explicit, event-based conversion and a published cap improve predictability versus stacks of legacy SAFEs with variable caps/discounts and uncertain conversion volumes (YC, 2018/2023; Ashman, 2024). Carta data showing evolving dilution trends further support instruments that make ownership outcomes calculable (Carta, 2024a; 2024b). ([Y Combinator](#))

Alignment with staged-finance evidence. The note's optional conversion and event triggers embody the monitoring and milestone logic widely documented in VC finance (Gompers, 1995; Kaplan & Strömberg, 2003). ([SSRN](#))

5) Governance & Safeguards

Founder Safeguard (optional). If combined dilution from Reloadable Notes™ plus a new round would exceed a negotiated threshold, smart, timed Event Proceeds Participation substitution may replace a portion of equity conversion. Founders retain ownership continuity; investors still receive cash distributions at events.

Equity Rights Cap (explicit anti-dilution backstop). The Note includes an Equity Rights Cap Percentage that contractually limits the maximum equity exposure obtainable through conversion and any reload-related equity issuance. While priced rounds naturally imply an ownership outcome based on dollars invested and valuation, conversion timing, stacked convertibles, option pool adjustments, and reload cycles can otherwise produce unintended dilution outcomes. The Equity Rights Cap functions as a founder-protection guardrail that keeps the fully diluted impact modelable and prevents conversion mechanics from exceeding a defined maximum equity outcome.

Information rights & transparency. The note includes standard information and inspection rights sufficient to model event proceeds, Event Proceeds Participation waterfalls, and conversion math, consistent with best practices for real-world financial contracting (Kaplan & Strömberg, 2003). ([Stockholm School of Economics](#))

No monthly skim; event-only. See 'Revenue-linked structures: promise and pitfalls' above. The Reloadable Note prohibits monthly revenue skims and permits distributions only at defined Financing Events or agreed Performance-Based Events.

6) Investor Protections Summary

Fixed Cap & Same-Class Conversion. Conversions in a Qualified Institutional Priced Equity Financing occur into the same class as new-money investors, with math set out in Exhibit A. On a Liquidity Event, the Investor receives the greater of (i) accrued Event Proceeds Participation or (ii) the amount realizable had the Investor converted at the Valuation Cap immediately prior to such transaction (see Exhibit A). These protections are scoped to overlapping convertible and proceeds-participation instruments, and they are not intended to block bona fide institutional priced equity rounds or bona fide senior bank or venture debt, which remain compatible with the Reloadable Note’s waterfall and conversion mechanics.

The Note is designed to sit where a serious first institutional check would normally sit, so it converts into the same class of preferred shares as the new lead in a Qualified Institutional Priced Equity Financing and is deliberately compatible with bona fide senior bank or venture debt that is expressly documented as senior in the capital structure.

Scoped Pro-Rata. Investors may purchase in the next two (2) Qualified Institutional Priced Equity Financings following the initial conversion of the Note (subject to customary overallocation cutbacks as determined by the Company and the lead investor(s)) to maintain as-converted ownership. Excludes issuances under employee/consultant plans, strategic/M&A issuances, and debt or debt-like financings.

Liquidity Floor (Greater-Of). On a change of control, each Investor receives the greater of (a) accrued Event Proceeds Participation or (b) cap-based as-converted proceeds.

MFN & No-Better-Terms. If the Company later issues a convertible with superior economics (e.g., lower cap, richer Event Proceeds Participation, enhanced reload), existing Investors may elect equivalent economics; the Company will not issue better terms without offering the same.

Reload Survival (Founder Safeguard). If the Founder Safeguard defers a portion of conversion, the right to convert that portion later at the original cap remains until the next Financing Event (or termination per the Note).

This section is informational and non-binding. The executed Reloadable Note governs.

7) Implementation Guidance

Standardization. Keep the core instrument 6–7 pages: (i) Definitions; (ii) Investment & Cap; (iii) Event Proceeds Participation Terms; (iv) Conversion Rights & Windows; (v) Founder Safeguard (optional); (vi) Information Rights; (vii) General Provisions. Standardization is a major reason the SAFE scaled; the Reloadable Note™ preserves that advantage while fixing economic gaps (YC, 2018/2023). ([Y Combinator](#))

Disclosure positioning. Attach a conversion math exhibit (tables for sample rounds) and an Event Proceeds Participation waterfall illustration. Carta’s public analyses show stakeholders respond to clearer dilution math (Carta, 2024a; 2024b). ([Carta](#))

Use cases.

- Capital-intensive or enterprise GTM (where staged milestones are meaningful).
- Bridge rounds seeking downside protection without monthly skims.
- Post-SAFE cleanups to consolidate legacy notes into a single, predictable instrument (Bernthal, 2018). ([Colorado Law Scholarly Commons](#))

7) Comparative Analysis

Dimension	Post-Money SAFE	KISS Note (Equity/Debt)	Convertible Note	Reloadable Note™
Cash to company	Immediate	Immediate	Immediate	Immediate
What it means	Capital wired now	Same	Debt funds upfront	Same
Monthly cash drain	None	Debt: interest accrues / Equity: none	Interest accrues monthly (non-cash)	None – event-triggered only
What it means	No operational drag	Equity version clean; debt version grows liability	Debt piles up over time	Zero runway bleed
Downside protection	Weak	Moderate (cap+discount+MFN)	Moderate (debt holder protection)	Strong (Event Proceeds Participation + fixed cap)
What it means	Wait and hope	Better but still round-based	Debt rights give leverage	Structured, event-based protection
Conversion price	Cap or discount	Cap + discount	Cap + discount + interest	Fixed valuation cap
What it means	Next round sets the price	Investor gets best-case	Interest inflates conversion math	Predictable pricing forever
When conversion happens	Only at priced round	Round/maturity/exit	Round/maturity/exit	Defined financing/liquidity events
What it means	Founder controls trigger	Debt adds pressure	Maturity can force conversion	No surprises, no mid-quarter conversions
Dilution predictability	Medium	Medium–High	Medium	High
What it means	SAFE stacking equals chaos	More structured	Interest + cap complexity	Fully modelable
Pro-rata rights	Not automatic	Included	Sometimes included	Included (two rounds)
MFN	Optional/uncommon	Built-in	Sometimes	Built-in + No Better Terms
Valuation discipline	Weak	Moderate	Moderate	Strong
Founder dilution control	Low	Low–Moderate	Low	High (Founder Safeguard)
Cashflow impact	No drain	Equity: none / Debt: liability	Interest accrual grows obligation	None until events
Capital stack clarity	Low–Medium	Medium	Medium–High	High–Very High
Administrative complexity	Very low	Low–Medium	Medium	Low (6–7 pages)

Sources: YC SAFE materials; Carta dilution analyses; RBF literature; venture contracting theory. ([Y Combinator](#))

Administrative note: when multiple Investors hold Notes, non-economic protective covenants may be approved by Majority Investors; any change that disproportionately harms an individual Investor's economics requires that Investor's consent. (See Note §8.3 and §13.2.

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Conclusion

The Reloadable Note™ implements what venture finance research and market practice have learned: stage commitments, clarify cash-flow rights, and make conversion timing predictable. It preserves founder runway, secures investor downside, and keeps the cap table investable for downstream rounds. In short, it is the institutional evolution of the SAFE.

In one line: Patient capital that can live entirely as Event Proceeds Participation or convert into equity at a fixed cap, scaling cleanly and transparently across future rounds.

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