



## ADVANCE SUBSCRIPTION AGREEMENT

### DATED

### PARTIES

- (1) [ ] of [ ] (the "**Subscriber**"); and
- (2) [ ] **LIMITED** a company incorporated and registered in [ ] with company number [ ] and having its registered office at [ ] (the "**Company**"); and
- (3) [ ] of [ ] (the "**Founder[s]**").

### INTRODUCTION

The Subscriber has agreed to make advance subscription funds available to the Company for the subscription for Subscription Shares (as defined below) and the Company has agreed to allot and issue the Subscription Shares to the Subscriber at a future date and on the terms more particularly described in this agreement.

### IT IS AGREED AS FOLLOWS

#### 1. DEFINITIONS

- 1.1 Terms defined in the articles of association adopted by the Company as at the date of this agreement shall have the same meaning in this agreement, unless the context requires otherwise or such terms are otherwise defined.
- 1.2 In this agreement:

"Advance Subscription"	has the meaning given in clause 2.1;
"Aggregate Advance Subscriptions"	has the meaning given in clause 2.1;
["Asset Sale"	<i>the disposal by the Company of all or substantially all of its undertaking and assets (which shall include, without limitation, the grant by the Company of an exclusive license of intellectual property not entered into in the ordinary course of business);</i> <sup>1</sup>
["Controlling Interest"	an interest in shares giving to the holder or holders control of the Company within the meaning of s1124 of CTA 2010;] <sup>2</sup>
["CTA 2010"	the Corporation Tax Act 2010;] <sup>3</sup>

<sup>1</sup> Note: not required if the Company's articles contain a suitable definition of "Sale" or "Asset Sale" (as applicable).

<sup>2</sup> Note: not required if the Company's articles contain a suitable definition of "Sale" or "Share Sale" (as applicable).

<sup>3</sup> Note: not required if the Company's articles contain a suitable definition of "Sale" or "Share Sale" (as applicable).

"Financing Round"	a subscription for Shares by one or more persons after the date of this Advance Subscription;
"Fully-Diluted Capitalisation"	means, at the time in question, (i) all issued Shares (ii) all Shares issuable upon the exercise of all authorized options (whether granted or not) and where no scheme is yet in place, assuming an option pool of 10% of the Fully-Diluted Capitalisation, provided that any additional options authorized pursuant to the terms of a Financing Round may also be included, and (iii) all Shares issuable upon the exercise or conversion of all outstanding warrants, convertible loan notes, advance subscriptions and all other convertible or exercisable securities then outstanding, including, for the avoidance of doubt, all Shares issued or issuable pursuant to the Aggregate Advance Subscriptions;
"Fund"	means a fund, partnership, company, syndicate or other entity formed for the purpose of investment or whose business is managed by a Fund Manager;
"Fund Manager"	means a person whose principal business is to make, manage or advise upon investments in securities;
"Insolvency"	means a situation in which: <ul style="list-style-type: none"> <li>(a) an order is made for the Company's compulsory liquidation; or</li> <li>(b) the Company is placed into voluntary liquidation (otherwise than for the purpose of reconstruction or amalgamation); or</li> <li>(c) the Company has an administrator or receiver appointed over the whole or any part of its assets or undertaking;</li> </ul>
["Listing"	<i>the admission of all or any of the Shares or securities representing those Shares (including without limitation American depositary receipts, American depositary shares and/or other instruments) to or the grant of permission by any like authority for the same to be traded or quoted on Nasdaq or on the Official List of the United Kingdom Listing Authority or on the AIM Market operated by the London Stock Exchange Plc or any other recognized investment exchange (as defined in s285 of the Financial Services and Markets Act 2000);</i> <sup>4</sup>
"Longstop Date"	[24]/[12]/[6] months from the date of this agreement (extendable by the mutual agreement of the Subscriber and the Company); <sup>5</sup>

<sup>4</sup> Note: not required if the Company's articles contain a suitable definition.

<sup>5</sup> Note: current HMRC guidance is that shares should be issued within 6 months of the ASA for the investment to be eligible for EIS relief. This may be relevant for other investors seeking SEIS/EIS relief.

"Member of the Same Fund Group"	<p>means, if the Subscriber is a Fund, a Fund Manager or a nominee of a Fund or a Fund Manager:</p> <p>(a) any participant or partner in or member of any such Fund or the holders of any unit trust which is a participant or partner in or member of any Fund (but only in connection with the dissolution of the Fund or any distribution of assets of the Fund pursuant to the operation of the Fund in the ordinary course of business);</p> <p>(b) any Fund managed or advised by that Fund Manager; or</p> <p>(c) any holding company or subsidiary of that Fund Manager, or any subsidiary of any holding company of that Fund Manager;</p>
"Member of the Same Group"	means, as regards the Subscriber, a company which is from time to time a holding company or a subsidiary of the Subscriber, or a subsidiary of any such holding company;
"Next Round Shares"	means, in respect of a Financing Round, the highest class of Share issued in such Financing Round;
"Permitted Assignee"	<p>means:</p> <p>(a) a Member of the Same Group; or</p> <p>(b) a Member of the Same Fund Group;</p>
"Post-Money Valuation"	means [     ];
["Sale"	<i>means a Share Sale or an Asset Sale;</i> <sup>6</sup>
"Qualifying Financing Round"	a Financing Round raising an aggregate of at least [     ] (excluding the Aggregate Advance Subscriptions), which amount can be raised in one or in a series of fundraisings on or before the Longstop Date;
"Shares"	means shares in the capital of the Company, other than any deferred shares;
["Share Sale"	<i>the sale of (or the grant of a right to acquire or to dispose of) any of the Shares (in one transaction or as a series of transactions) which will result in the purchaser of those Shares (or grantee of that right) and persons Acting in Concert with such purchaser together acquiring a Controlling Interest in the Company, except where following completion of the sale the shareholders and the proportion of shares held by each of them are the same as the shareholders and their shareholdings in the Company immediately prior to the sale;</i> <sup>7</sup>

<sup>6</sup> Note: not required if the Company's articles contain a suitable definition.

<sup>7</sup> Note: not required if the Company's articles contain a suitable definition of "Sale".

"Subscription Price"	<p>means:</p> <p>(a) In the case of a Financing Round a Sale or Listing, a price per Subscription Share equal to the lower of (a) the lowest price at which Shares are issued or sold pursuant to such Financing Round, Sale or Listing, and (b) the Post-Money Valuation divided by the Fully-Diluted Capitalisation, rounded down to the nearest whole share; and</p> <p>(b) in any other case, the Post-Money Valuation divided by the Fully-Diluted Capitalisation, rounded down to the nearest whole share; and</p>
"Subscription Shares"	<p>means either:</p> <p>(a) in the case of shares issued pursuant to clause 3.1(a) or (b), the Next Round Shares; or</p> <p>(b) in the case of shares issued pursuant to clause 3.1(c), (d) or (e), the highest class of Share then in issue,</p> <p>provided that the Subscriber may elect (by notice in writing to the Company in advance of the allotment of Subscription Shares) to receive Ordinary Shares.</p>

### 1.3 References

In this agreement, references to a party include its successors in title, transferees and assignees.

## 2. ADVANCE SUBSCRIPTION

### 2.1 Advance Subscription

Subject to the terms of this agreement, the Subscriber agrees on the date of this agreement to make available to the Company [ ] (the "**Advance Subscription**").

The Company may issue similar agreements with other investors on terms, approved by the Subscriber, broadly equivalent to this agreement, within 45 days from the date of this agreement, for advance subscriptions which, together with the Advance Subscription, do not exceed [ ] in aggregate (the "**Aggregate Advance Subscriptions**").

### 2.2 Purpose

The Company will apply the Advance Subscription towards its general working capital purposes, for the raising of additional financing, and for such other purposes as the Company and Subscriber may from time to time agree in writing.

### 2.3 Payment

The Advance Subscription shall be paid to the Company to the following bank account:

**[note: details to be added]**

## 2.4 Waiver

The Company hereby undertakes to procure all consents, waivers and shareholder resolutions necessary (pursuant to the Company's articles of association or otherwise) so as to enable the issue of shares in the capital of the Company contemplated by this agreement to proceed free of pre-emption rights or other restriction, evidence of which shall be delivered to the Subscriber upon allotment of the Subscription Shares.

## 3. ISSUE AND ALLOTMENT

3.1 The Advance Subscription shall automatically be applied to the Subscription for Subscription Shares at the Subscription Price (rounded down to the nearest whole share), and the Company shall issue and allot to the Subscriber (or as the Subscriber shall direct) the number of fully paid Subscription Shares to which it is entitled:

- (a) in the event of a Qualifying Financing Round, as part of and simultaneously with the unconditional completion of such Qualifying Financing Round; or
- (b) at the election of the Subscriber, in the event of a Financing Round which is not Qualifying Financing Round, as part of and simultaneously with the unconditional completion of such Financing Round
- (c) in the event of a Sale or a Listing, immediately prior to the unconditional completion of such Sale or Listing; or
- (d) on the Longstop Date (if none of the events set out in sub-clauses (a) to (c) have occurred on or prior to the Longstop Date); or
- (e) in the event of an Insolvency occurring before any of the events set out in sub-clauses (a) to (d) above, immediately prior to the occurrence of such Insolvency event,

and (in each case) Subscription Shares so allotted and issued shall be in full satisfaction and discharge of all obligations of the Company under this agreement to the Subscriber and this agreement shall terminate automatically and immediately on completion of such issue.

## 4. MAJOR INVESTOR RIGHTS

4.1 The Subscriber shall have the following major investor rights:

- (a) Information Rights: in accordance with appendix 1.
- (b) Participation Rights: Each time the Company proposes to offer a subscription for equity in the Company at any time prior to and including the closing of a Financing Round other than relating to the Aggregate Advance Subscriptions (any such offering referred to as a "**Financing**") the Company shall provide the Subscriber with at least ten (10) business days prior written notice of such offering, including the price and terms thereof. The Subscriber shall have a pro rata right, but not an obligation, to participate in such financing as if the Advance Subscription has been applied (in full) to the allotment and issue of Subscription Shares.
- (c) Board Observer Rights: The Subscriber shall be entitled to appoint a non-voting observer to attend all meetings of the board of directors of the Company for a period of 9 months from the date of this agreement (extendable by mutual agreement of both the Subscriber and the Company).
- (d) Entrenched Rights: The Company shall use reasonable efforts to ensure that the Subscriber shall, for so long as it remains a Shareholder, continue to enjoy the

information and participation rights in (a) and (b) above in relevant financing documents related to all subsequent financings.

## **5. WARRANTIES**

The Company and the Founder(s) hereby warrant to the Subscriber that: (a) the Company is a company duly formed, validly existing and in good standing under the laws of England and Wales, with full corporate power and authority to enter into and perform its obligations under this agreement; (b) the Company has full power and authority to consummate the transactions contemplated hereunder; (c) no consents, authorisations or approvals of any kind of any governmental authority or other third party are required in connection with the execution or performance of this agreement by the Company; (d) the consummation of the transactions contemplated hereunder and the performance of this agreement by the Company do not violate the provisions of the Articles of Association of the Company, or any applicable law, and will not result in any breach of, or constitute a default under, any note or instrument to which the Company is a party or by which it is bound; (e) the execution and performance of this agreement by the Company and the Founder(s) has been duly authorised by all necessary actions, and this agreement has been duly executed and delivered by the Company and the Founder(s); (f) there is no action, suit, proceeding or investigation commenced, pending or, to the knowledge of the Company and the Founder(s) after due inquiry, threatened against the Company; (g) so far as the Company and the Founder(s) are aware, the operations of the Company and any products or services supplied by them do not use or infringe the rights of any person or infringe any right of privacy and there are not any claims or applications for registration which might be material for disclosure to the Subscriber as a potential shareholder of the Company; and (h) all intellectual property which is or is reasonably likely to be material to the business of the Company is (or in the case of application will be) legally and beneficially vested exclusively in the Company or is licensed to the Company by third parties by way of an agreement and/or license which enable the Company to use such intellectual property as it requires in the ordinary course of its business.

## **6. REVERSE VESTING**

If the Company does not have a reverse vesting schedule in place for the Founder[s] it shall put one in place on or around the completion to the Financing Round. Such reverse vesting schedule shall be: 25% of the shares held by [the]/[each] Founder to vest on the one-year anniversary of the signing of this agreement and the remaining shares held by [the]/[each] Founder to vest in equal monthly installments over the next 2 years (the "Vesting Schedule").

If the Company already has a vesting schedule in place for the Founder[s] that is materially different from the Vesting Schedule it shall amend such vesting schedule to be in line with the Vesting Schedule. By countersignature to this agreement, [the]/[each] Founder acknowledges and agrees to the Vesting Schedule applying to his shareholding.

## **7. GENERAL**

### **7.1 Status of funds**

For the avoidance of doubt, no interest is payable on the Advance Subscription in any circumstance. No amount of the Advance Subscription is repayable by the Company in any circumstance but such amount may be applied to the allotment and issue of Shares as set out in clause 3.

### **7.2 Assignment**

No party may assign this agreement or any of its rights or obligations hereunder without the prior written consent of the other parties, provided that the Subscriber may assign the whole of its rights under this agreement to a Permitted Assignee without the consent of the Company or

the Founder[s] provided that if the assignee ceases to be a Permitted Assignee it shall be required to transfer its interests back to the Subscriber.

### 7.3 Termination and Variation

This agreement shall automatically terminate in accordance with clause 3 and otherwise shall only be terminated or varied in a writing signed by the Subscriber and the Company.

### 7.4 Counterparts

This agreement may be executed in counterpart (whether signed in physical, electronic or other means), and this has the same effect as if the signatures on the counterparts were on a single copy of this agreement. The exchange of a fully executed version of this agreement (in counterparts or otherwise) by electronic transmission in PDF format shall be sufficient to bind the parties to the terms and conditions of this agreement and no exchange of originals is necessary.

### 7.5 Third party rights

This agreement does not confer any rights on any person or party (other than the parties to this agreement) pursuant to the Contracts (Rights of Third Parties) Act 1999.

## 8. **LAW**

This agreement and any dispute or claim related to it or its subject matter (including non-contractual claims) will be governed by and construed in accordance with English law. The parties irrevocably agree that the courts of England and Wales shall have exclusive jurisdiction to settle any such claim or dispute arising out of or in connection with this agreement.

*[signatures on next page]*

This agreement has been entered into on the date stated at the beginning of this agreement.

**SUBSCRIBER**

[                    ]

By: \_\_\_\_\_

**COMPANY**

[            ] LIMITED

By: \_\_\_\_\_

, Director

**FOUNDER**

\_\_\_\_\_

[                    ]

**FOUNDER**

\_\_\_\_\_

[                    ]



## **Appendix 1**

### **INFORMATION RIGHTS**

#### **MONTHLY:**

- monthly company KPIs – to include but not limited to: revenue, runway, cash in bank, fundraising status and others where relevant (we will work with you to understand what are important for your stage of business)

#### **QUARTERLY:**

- annual turnover for the previous financial year – expected only to change on an annual basis
- total number of employees QE (for the latest quarter end accounting period)
- cap table updates and schedule of note holders for quarterly reporting

#### **OTHER:**

- annual accounts
- P&L forecasts (2-3 years)
- follow-on investments: provide fully executed documentation & latest cap table at time of investment
- confirm if company is in liquidation / dissolved