

Legal aspects of startup financing and venture capital investments

Abstract

The aim of this diploma thesis is to analyze the legal aspects of startup financing, especially with a focus on venture capital investments. As the transaction documentation related to venture capital investments usually contains a significant number of foreign language clauses and provisions, a part of my thesis is dedicated to these clauses and their detailed description using practical examples.

The content itself is divided into three parts. The first of them generally defines the companies referred to as startups and their individual development stages. It also answers the question, startups are facing in their beginnings, of choosing the appropriate legal form. The conclusion of the first part is then focused practically on individual methods used for startup valuation.

The second part is then focused on the venture capital investment realization and specific transaction documentation associated with capital investment. The beginning of the second part is focused on pre-contractual documentation referred to as the Term Sheet and legal Due Diligence. Subsequently, the Shareholders' Agreement and individual foreign language clauses and provisions are analyzed. Those provisions are part of the Shareholders' Agreement in order to either protect the investor or other shareholders of the company and include for example the so-called Good Leaver or Bad Leaver provision, Liquidation preference and specific modifications including so-called Participating and Non-participating Liquidation preference. The end of the second part is then dedicated to description of provisions protecting the investor against share dilution, called Anti-dilution clause, and Drag-along and Tag-along provisions.

The last part of this thesis provides possible ways and realization of venture capital investment. The first part is devoted to the analysis of the so-called Convertible note and the differences between the loan defined in the Civil Code. The conclusion of the third part then describes the venture capital investment realization using the voluntary monetary contribution to the company's equity outside the registered capital of the company or by increasing the registered capital of the company.

Key words: Startup financing, Venture capital investments, Shareholders' agreement