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General Information

Syntax Error Pvt Ltd is a medical test kit manufacturing and distribution company in India. It is a registered startup and MSME with the Government of India. It was begun by Rahul Khurana in 2012. Rahul is a scientist whose aim is to create minimalistic apparatus out of easily available material so that medical test kits are easily accessible and affordable in India.

In the first few months, Rahul was very enthusiastic about his new project. He presented his idea at various national and international forums. The startup won many grants at the ideation and minimum value product stage. But the problem arose at the proof of concept stage. Rahul was a brilliant mind. He was a creative genius and an innovator par excellence. But he was not very good at interpersonal conversations outside of his work. He found it difficult to create a marketing funnel and go-to-market strategy for the product. He knew his product was good but it was going to be of no value if it did not find any takers.

He met Joy Dash at a medical devices' roadshow in Koh Samui in April, 2013. Both of them bonded over Mai Tais and the setting sun on the sea. Joy spoke about his enthusiasm for marketing and sales and his connections in hospitals and medical test centres.

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He spoke about how most hospitals and medical test centres complained about the time required for diabetes diagnostics and how it shot up the cost for reliable diabetes test kits. He lamented about how, in rural India, people are still reliant on the immediate urinary test kit which is not a very accurate test for proper diagnostics and medical dosage determination in patients.

Rahul laughed and told him how he had just the right product for such clients. It would bring down the time and cost of diabetes diagnostics by 70% and its accuracy was 40% higher than tests available in India right now. Joy's eyes shone with excitement. Rahul told him with a sigh that there were no takers for his product. In fact he had five other products ready for launch which have won awards at startup idea competitions and medical innovation fares. But there were no real users for any of his products.

Rahul told Joy that sometimes, he felt it is better to just shut shop and work as a consultant for healthcare companies. Rahul said to Joy, "I sometimes wish I had someone to help be the face of the company and drive the sales and marketing. I am predicting today that five years from now, health-tech is going to be the 'thing'."

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People will expect a combination of traditional medical test kits with in-built or support SaaS software that can assist in correct analysis and enhance the efficacy of medical devices and medical treatments in general.”

Joy nodded heartily. “You see my BlackBerry?”, Joy asked. “People will one day want the world on their phone, including their medical reports.” And a joint venture came into being. The Founders Agreement between Rahul and Joy was a paper napkin. They used to laugh about it and the napkin was framed and hung in the conference room of the startup as a symbol of their symbiotic relationship.

Within three months of joining as a co-founder, Joy brought in the first client to the company. The order was small but Rahul was elated that they would finally have some proof of concept. Joy told Rahul that they should almost give away their product to the client for free so that they can get data on how well its working. “I can see the future.... Rahul!”, Joy said. “I have so many big national and international hospitals and medical test chains lined up. They are all very excited to work with us. All they want from us they are saying is some proof of concept for our products.” Rahul nodded his head sagely. He was so lucky to have market savvy Joy by his side.

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Over a period of time, Joy told Rahul that he only wanted him to focus on his art and innovation. Joy would take care of everything else. Joy started giving interviews and speeches. He anointed himself as the CEO of the company. Rahul had no issues with that. He just wanted to be head of research. After all, he was still a shareholder holding 56% shares and also an executive director of the company. Joy started spearheading the recruitment of the company and hired staff of his choice. He started doing investor pitches individually. Rahul was glad he did not have to smile forcefully anymore for investors and clients.

In February 2014, Rahul received an urgent text from Joy asking him to meet at the Café Coffee Day near their office. When Rahul arrived there, Joy was distraught. He had huge dark circles under his eyes. His eyes were sunk. Rahul had never seen Joy with a stubble before. Rahul asked Joy what happened. Joy told him how all the money they had received from the grants was almost exhausted. Rahul was surprised. He asked him how that happened. Joy explained to him that every startup needs to work for the first few years in 'burn mode'. Their burn rate was presently high but Joy was sure that if they kept at it, they would be bankrolling in 2 years. Two years was a very short time for a health-tech startup- Rahul thought.

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He would have preferred a steady growth with a mediocre burn rate. But Joy understood this #startup culture better than him. He should trust his street smarts.

“What do we do now?”, Rahul asked.

“We get PE investment!” Joy exclaimed. “I have already found an American fund that is willing to participate in our first round of investment. Here is the termsheet. Sign this and we are good to go.”

Rahul read the termsheet. It expected them to triple their sales over the next two years. A failure to do so would be considered as a material breach giving the investor affirmative voting rights over all investment matters and a board seat. He was not very comfortable with the decision. His conscience was not at ease. He wanted to run away and hide.

“Don’t you trust me?”, Joy asked irritatedly. Rahul did not want to displease Joy. So he signed the termsheet. The investors were onboarded. News of the company successfully raising its first round of funding from foreign funds was published by Joy everywhere with photos of Joy, Rahul and the investors smiling and shaking hands.
Over the next two years, the company continued its burn rate but could not meet the sales target. This time, the investors who also had affirmative voting rights over investment decisions in the company put even more onerous conditions of investment.

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Some of the important clauses of the revised shareholders agreement dated April 21, 2016 are as follows:

1. LIQUIDATION PREFERENCE

1.1 In the event of a Liquidation Event, the Investors shall first be entitled to receive liquidation rights preferential to other shareholders such that the Investors receive higher of (i) 100% (hundred percent) of the total amount invested by the Investors plus any accrued dividend; or (ii) Investors pro-rata entitlement in the proceeds on a Fully Diluted Basis.

1.2 After the payment of the above mentioned amount to the Investors, the remaining distributable proceeds of the Company shall be distributed to the holders of Equity Shares (other than the Investors) in proportion to their shareholding. The Parties hereby agree that Investors Subscription Shares are non-participatory in nature.

2. PROMOTERS' VESTING

2.1 The Shares ("Restricted Shares") held by the Promoters shall be subject to 3 years vesting period from the date of execution of this Agreement ("Restricted Period"). The Restricted Shares shall be subject to vesting provisions where vesting of the Promoters Shares shall happen in the following manner:

(i) The Restricted Shares constituting 33% (Thirty Three percent) of the shareholding of the Promoters, on a Fully Diluted Basis, shall be vested immediately upon execution of this Agreement; and

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(ii) the Restricted Shares constituting of the remaining 67% (Sixty Seven percent) of the shareholding of the Promoters, on a Fully Diluted Basis, shall be vested to the Promoters on a monthly basis in equal parts over the next 2 (two) years from the completion of one year from the date of execution of this Agreement ("Released Shares").

2.2 In case if the Promoter 1 (Rahul Khurana) or the Promoter 2 (Joy Dash) ceases to be a full time employee of the Company during such Restricted Period due to a Cause (as defined below) or in the event that any of the Promoter(s), voluntarily resign to either start a competing business, or start any other commercial enterprise or start any commercial activity (including any consultancy or freelancing activity) or take a sabbatical which is not approved in a meeting of the Board (where such meeting of Board would exclude the Resigning Promoter or his nominee Director)("Purpose Oriented Resignation"), then the Shares then held by such Promoter ("Resigning Promoter") which are still a part of the Restricted Shares ("Unvested Shares") shall then be transferred immediately on such resignation to a separate trust ("Trust") for the purpose of the benefit of the non – resigning Promoter, the employees and the Company as a whole and such Resigning Promoter shall execute the relevant share transfer forms in relation to such Unvested Shares to give effect to the same.

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The Trust shall utilize these Unvested Shares as per the decision of the Board to attract talent for the benefit of the Company and in the event that any such Unvested Shares remain unutilized then such Unvested Shares shall be transferred to the shareholders of the Company who are also employees of the Company and as well as the non-resigning Promoter and in no event shall such Unvested Shares be bought back by the Company or be transferred to any of the Investors. Any decision with respect to all future recruitment of relevant personnel for the Company, where any Unvested Shares from the Trust are being utilized, would need to be approved by a 3 (three) member committee, whose members would include the non-resigning Promoter, the Investor Director and an independent director or a nominee of Investors. For purposes of this Agreement, the term "Cause" shall mean an act by the Promoter(s) which involves established fraud and which has been proven in the court of law.

2.3 In the event if the Promoter(s) ceases to be a full time employee of the Company during such Restricted Period due to reasons other than Cause as defined in Clause 2.2 of this Agreement and Purpose Oriented Resignation as defined in Clause 2.2 of this Agreement, in such an event all such Restricted Shares shall forthwith vest with the Promoter(s).

2.4 The vesting schedule will have a full acceleration in case of a Liquidation Event.

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3. AFFIRMATIVE VOTE ITEMS

3.1 Notwithstanding anything contained in this Agreement, no resolution shall be passed or decision be taken by the Board, at a meeting of the Board, or by circulation in respect of any of the Affirmative Vote Items, unless the affirmative vote of the Director appointed by the Investors is obtained at such meeting or by circulation for it to be validly passed or taken. It is hereby clarified that any matter which requires Affirmative Vote Items as per SCHEDULE 8 cannot be considered passed if the Director appointed by the Investors does not provide their affirmative vote.

Item 21 of Schedule 8 is the only relevant item. It reads as "Any fresh issue of securities including any form of investment in the company for cash or consideration other than cash."

4. STRATEGIC DRAG

4.1 In the event the Company, Promoters and Major Investors agree to sell the Company by way of a merger, recapitalization, sale of all or substantially all of the Company's share or assets or otherwise, which is approved by the Board and has consent of the Promoter nominee Directors and the Major Investors, the Promoters and the Major Investors shall cause, and the Shareholders shall be under the obligation to Transfer their Shares at a price mutually agreed amongst the Parties at the time of such Transfer pursuant to, and take such other action as may be required to consummate, such sale of the Company to the Third Party.

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5. COVENANTS OF THE COMPANY AND THE PROMOTERS

5.1 Non-Compete: The Promoters shall not be involved, directly or indirectly, in any business or operation whether as principal, shareholder, investor, consultant, director or otherwise in any business that competes with the Business as is currently carried on.

5.2 Intellectual Property Assignment: The Promoters shall transfer any intellectual property rights owned by such Promoters in favour of the Company.

5.3 Information Rights: The Parties hereby agree that the Investors will be entitled to customary information rights, as available to equity Shareholders' in a company under the Companies Act, along with periodic business updates, audited annual financial reports, notices, Board meeting minutes, and business plans as may be agreed upon.

On February 15, 2020 Rahul packed up his things in the office and left. He was done with all the schemes and games that the so-called startup required. It was not him and he could not take it anymore. Multiple rounds of meetings were held between Rahul, the investors and Joy in the hope to get him back. Rahul continued to help the research team in this tenure. It was mutually agreed by everyone that Rahul's resignation date should be April 23, 2020.

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On January 1, 2023, Rahul received a legal notice on the company's letterhead. It said that he was required to return shares equivalent to those vested in him from February to April 2020 since he had taken an unapproved sabbatical. Further, he shall additionally pay the company damages of INR 3.5 crores for breach of the intellectual property assignment clause of the company since he had not assigned all patents in his name as on date of execution of the agreement to the company. The legal notice has been signed by Joy and the investor representative director. There are two more investor directors on the board of the company since Rahul left. They have not signed this legal notice but since it is signed by two directors, it ought to be valid.

Rahul is enraged by the legal notice and equally distressed. He files for mediation with the mediation centre annexed to the High Court of Punjab and Haryana at Chandigarh.

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Disclaimer: The dates, schedules, and details pertaining to the tournament are tentative in nature and subject to change.

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