

APPENDIX 11

INVESTOR- VS. COMPANY-FAVORABLE TERM SHEET (SAMPLE 1)

[Notes: Where appropriate, investor-favorable provisions in this Term Sheet are denoted "IF" and company-favorable provisions are denoted "CF." Where certain provisions in this Term Sheet call for a number, we have included a range, the endpoints of which represent investor-favorable or company-favorable terms, depending on the circumstances.]

This Term Sheet dated _____, 200__ outlines the terms and conditions of a proposed investment by [Investor Name]. ("Investor") and the other investors listed on Exhibit A hereto (together with Investor, the "Investors") in [Company Name], a [State] corporation (the "Company"). This Term Sheet is an expression of intent only, and is not to be construed as a binding agreement, except for the "Exclusivity" and "Confidentiality" provisions contained herein.

OFFERING TERMS

Issuer: [Company Name], a [State] corporation.

Amount of Financing: A minimum of \$_____ and up to a maximum of \$_____, [including \$_____ received pursuant to outstanding bridge notes (the "Bridge Notes").

Type of Security: Series A Preferred Stock (the "Series A Preferred"), initially convertible on a 1:1 basis into shares of the Company's Common Stock (the "Common Stock").

Price: \$_____ per share (the "Original Purchase Price"). The Original Purchase Price represents a fully diluted pre-money valuation of \$_____ million.

Investors: Investor \$_____ _____ shares

The other Investors listed on **Exhibit A** hereto \$_____ _____ shares

[The Bridge Notes listed on **Exhibit B** hereto*] \$_____ _____ shares

[* At the Closing, the outstanding principal of the Bridge Notes will automatically convert into shares of Series A Preferred at a conversion price equal to [75-100%] of the Original Purchase Price. All accrued interest, if any, will be paid at the Closing by the Company.]

Anticipated Closing Date: On or before _____, 200____ (the “Closing”) [, with a subsequent closing to occur on or before [15-60] days following the Closing].

Post-Closing Capitalization: As set forth in the table attached as **Exhibit [B]** hereto. *[IF: The authorized but unissued shares of the Company as of the Closing shall not exceed by more than 5% the capitalization set forth on **Exhibit [B]**].*

Use of Proceeds: Proceeds from the investment will be used for [working capital and general corporate purposes] and _____. *[IF: All other outstanding stockholder debt and deferred compensation will be converted into equity and reflected on the Company’s capitalization table, and hence considered paid-in capital, prior to the Closing.]*

TERMS OF SERIES A PREFERRED

Dividends: The holders of the Series A Preferred shall be entitled to receive *[IF: cumulative] [CF: noncumulative]* dividends in preference to any dividend on the Common Stock at the rate of 8% of the Original Purchase Price per annum *[CF: when and as declared by the Board of Directors.]* The holders of the Series A Preferred also shall be entitled to participate pro rata in any dividends paid on the Common Stock on an as-converted-to-Common Stock basis.

Liquidation Preference: In the event of any liquidation or winding up of the Company, the holders of the Series A Preferred shall be entitled to receive in preference to the holders of the Common Stock a per-share amount equal to *[IF: _____ times]* the Original Purchase Price (as adjusted for any stock splits, dividends, and the like) plus any declared but unpaid dividends *[IF: and accrued interest thereon at a rate of [8%-10%] per annum]* (the “**Liquidation Preference**”). *[IF: After the payment of the Liquidation Preference to the holders of the Series A Preferred, the remaining assets of the Company shall be distributed ratably to the holders of the Common Stock and the Series A Preferred on an as-converted-to-Common-Stock basis.] [IF: After the payment of the Liquidation Preference to the holders of the Series A Preferred, the remaining assets of the Company shall be distributed ratably to the holders of the Common Stock and the Series A Preferred on an as-converted-to-Common-Stock basis until the holders of Series A Preferred have received an additional [two-four] times the Original Purchase Price per share; thereafter, the remaining assets of the Company shall be distributed to the holders of Common Stock.] [CF: After the payment of the Liquidation Preference to the holders of the Series A Preferred, the remaining assets of the Company shall be distributed ratably to the holders of the Common Stock until the holders of Common Stock shall have received a per-share amount equal to \$_____ per share (as adjusted for any stock splits, dividends, and the like); thereafter, the remaining assets of the Company shall be distributed ratably to the holders of the Common Stock and the Series A Preferred on an as-converted-to-Common-Stock*

basis.] *[CF: After the payment of the Liquidation Preference to the holders of the Series A Preferred, the remaining assets of the Company shall be distributed ratably to the holders of the Common Stock.]* A merger, acquisition, or sale of voting control in which the stockholders of the Company immediately prior to the transaction do not own a majority of the outstanding shares of the surviving corporation or sale or lease of substantially all of the assets of the Company *[IF: or license of substantially all of the intellectual property of the Company]* shall be deemed to be a liquidation.

Conversion: The holders of the Series A Preferred shall have the right to convert the Series A Preferred, at the option of the holder, at any time, into shares of Common Stock. The initial conversion rate shall be one share of Series A Preferred into one share of Common Stock, subject to adjustment as provided below.

Automatic Conversion: The Series A Preferred shall be automatically converted into Common Stock, at the then-applicable conversion price, (i) in the event that the holders of at least *[IF: 66 2/3%]* *[CF: a majority]* of the outstanding Series A Preferred consent to such conversion or (ii) upon the closing of a firmly underwritten public offering of shares of Common Stock at a per-share price not less than [3-5] times the Original Purchase Price (as adjusted for stock splits, dividends and the like) per share and for a total offering of not less than [\$15-35] million (*[IF: after]* *[CF: before]*) deduction of underwriters' commissions and expenses) (a "Qualified IPO").

Antidilution Provisions: The conversion price of the Series A Preferred will be subject to a *[IF: full ratchet]* *[IF: narrow-based weighted average]* *[CF: broad-based weighted average]* adjustment to reduce dilution in the event that the Company issues additional equity securities at a purchase price less than the applicable conversion price. The conversion price of the Series A Preferred will not be adjusted for the following issuances: (i) shares of Common Stock issued upon conversion of or as a dividend or distribution on the Series A Preferred, (ii) *[IF: no more than _____ shares of restricted stock or stock options granted to officers, directors, employees, or consultants as approved by the Company's Board of Directors [IF: including the Series A Director(s) (as defined below)],* (iii) shares of Common Stock subject to outstanding options, warrants or convertible securities as of the date hereof, (iv) the issuance of Common Stock or rights to purchase Common Stock issued in connection with equipment lease financing arrangements, credit agreements, debt financings, or other commercial transactions approved by the Board of Directors *[IF: including the Series A Director(s)],* (v) shares of Common Stock or rights to purchase Common Stock issued for consideration other than cash pursuant to a merger, consolidation, acquisition or similar business combination approved by the Board of Directors *[IF: including the Series A Director(s)]. [The Series A Preferred will contain a "pay-to-play" feature whereby in the event of a dilutive issuance after the Closing, each Investor must purchase its full pro-rata share of such issuance in order to maintain its antidilution protection.]* The conversion price will also be subject to proportional adjustment for stock splits, stock dividends, recapitalizations, and the like.

Redemption at Option

of Investors: At the election of the holders of at least *[IF: a majority]* *[CF: 66 2/3%]* of the Series A Preferred, the Company shall redeem the outstanding Series A Preferred *[IF: on or after _____, 200__] [CF: in [three-seven] annual installments beginning on the [third-seventh] anniversary of the Closing].* Such redemptions shall be at a purchase price equal to one hundred percent of the Original Purchase Price *[IF: plus declared and unpaid dividends]. [IF: To the extent that the Company's available cash flow does not permit such redemption, the remainder shall be paid in the form of a one-year promissory note to each unredeemed holder of Series A Preferred bearing interest at a rate of [8-10%] per annum, and the holders of a majority of Series A Preferred shall be entitled to elect a majority of the Company's Board of Directors until all principal and interest owing under such notes is paid in full.]*

Voting Rights: The Series A Preferred will vote together with the Common Stock and not as a separate class except as specifically provided herein or as otherwise required by law. Each share of Series A Preferred shall have a number of votes equal to the number of shares of Common Stock then issuable upon conversion of such share of Series A Preferred.

Board of Directors: The size of the Company's Board of Directors shall be set at [three-five]. At the Closing, the Board shall initially be comprised of [_____], [with the Mutual Director (as defined below) to be appointed after the Closing].

At each subsequent meeting for the election of directors, the holders of the Series A Preferred, voting as a separate class, shall be entitled to elect [one-two] members of the Company's Board of Directors (the "**Series A Directors**"), the holders of the Common Stock, voting as a separate class, shall be entitled to elect [two-three] members of the Company's Board of Directors, and the remaining director will be selected by a majority vote of the holders of the Series A Preferred and the Common Stock, voting together as a single class (the "**Mutual Director**").

The Company will indemnify board members to the maximum extent permitted by applicable law. *[IF: The Company will carry directors & officers insurance with coverage as approved by the Company's Board of Directors.]*

The Board of Directors' meetings shall be held [monthly] [quarterly] until such time as the Board unanimously determines that [monthly] [quarterly] meetings are not required. The Company will reimburse directors for their customary and reasonable expenses in attending Board meetings.

[IF: The Board of Directors will establish a Compensation Committee, if none exists, to recommend management compensation, the Company benefit plans, and general equity-incentive plans for approval by the Board. The Compensation Committee shall contain no more than three persons, at least one of whom shall be a Series A Director. All decisions regarding executive compensation and the Company's equity-incentive plans shall be made only by the Compensation Committee, acting unanimously.]

Protective Provisions: The Company may not, without the consent of holders of at least *[IF: 66 2/3%]* *[CF: a majority]* of the Series A Preferred: (i) declare or pay any dividends or make any distributions upon any of its equity securities; (ii) purchase, redeem, or otherwise acquire any of the Company's equity securities (including warrants, options, and other rights to acquire equity securities) other than the repurchase of equity securities pursuant to existing agreements; (iii) liquidate or dissolve; (iv) merge or consolidate with another corporation in which the holders of the Company's voting equity securities immediately prior to the transactions own 50% or less of the voting securities of the surviving corporation; (v) sell, license, or dispose of all or substantially all of the Company's assets, technology or intellectual property; (vi) change the authorized number of directors; (vii) create any new class or series of shares having rights, preferences or privileges *[IF: on a parity with or]* senior to the Series A Preferred; (viii) amend or waive any provision of its Certificate of Incorporation or Bylaws *[CF: in a manner that alters or changes the voting or other powers, preferences, or other special rights or privileges of the Series A Preferred [so as to affect them adversely]]*; (ix) increase or decrease the authorized number of shares of Series A Preferred; (x) increase or decrease the authorized number of shares of Preferred Stock; (xi) increase or decrease the authorized number of shares of Common Stock; *[IF: (x) change the nature of its business; or (xi) authorize or incur any indebtedness in excess of \$_____]*.

Information Rights: *[CF: Upon the request of such Investor,]* the Company shall deliver to each Investor *[CF: holding more than _____ shares of Registrable Securities]* audited annual financial statements no later than 120 days following the close of the fiscal year and unaudited quarterly financial statements no later than 45 days following the close of such period. *[CF: Upon the request of such Investor,]* the Company will also furnish such Investor with monthly financial statements no later than 30 days following the close of such period and will provide a copy of the Company's annual operating plan no later than 30 days prior to the beginning of the fiscal year. Such Investor shall also be entitled to standard inspection and visitation rights. These provisions shall terminate upon a *[IF: Qualified IPO]* *[CF: IPO]* *[CF: acquisition, merger, or consolidation of the Company.]*

Registration Rights: *Demand Rights.* If Investors holding more than [25-50%] of the outstanding shares of Series A Preferred, including Common Stock issued on conversion of Series A Preferred (collectively, "**Registrable Securities**"), request that the Company file a registration statement having an aggregate offering price to the public of not less than (\$5,000,000-\$10,000,000), the Company will use its [**CF: reasonable**] best efforts to cause such shares to be registered, provided, however, that the Company shall not be obligated to effect any such registration prior to the [second-fifth] anniversary of the Closing. [**CF: The Company shall have the right to delay such registration under certain circumstances for one period not in excess of 90 days in any 12-month period.**]

The Company shall not be obligated to effect more than [one-two] registrations under these demand-right provisions, and shall not be obligated to effect a registration (i) during the [120-180] day period commencing with the date of the Company's initial public offering, or (ii) if it delivers notice to the holders of the Registrable Securities within 30 days of any registration request of its intent to file a registration statement for such initial public offering within 90 days.

"Piggyback" Rights. The Investors shall be entitled to "piggyback" registration rights on all registrations of the Company or on any demand registrations of any other investor subject to the right, however, of the Company and its underwriters to reduce the number of shares proposed to be registered pro rata in view of market conditions. [**IF: If the Investors are so limited, however, no party shall sell shares in such registration other than the Company or the Investor, if any, invoking a demand registration.**] [**IF: Unless the registration is with respect to the Company's initial public offering, in which shares are sold only for the account of the Company, in no event shall the shares to be sold by the Investors be reduced below [20-40%] of the total amount of securities included in the registration.**] No stockholder of the Company shall be granted piggyback registration rights which would reduce the number of shares includable by the holders of the Registrable Securities in such registration without the consent of the holders of at least [**IF: 66 2/3%**] [**CF: a majority**] of the Registrable Securities.

S-3 Rights. [**CF: Upon initiation by Investors holding at least (10-30%) of the outstanding shares of Series A Preferred,**] Investors shall be entitled to [**IF: unlimited**] demand registrations on Form S-3 (if available to the Company), so long as such registered offerings are not less than [\$500,000-\$1,000,000]. [**CF: The Company shall be obligated to effect no more than [two-four] S-3 registrations in any 12-month period.**]

Expenses. The Company shall bear registration expenses (exclusive of underwriting discounts and commissions) of all such demands, piggy-backs and [**CF: up to [two-four] S-3 registrations**] (including fees and expenses [**CF: up to [\$10,000-\$25,000]**] of one special counsel for the selling stockholders).

Termination of Registration Rights. The demand, piggyback, and S-3 registration rights shall terminate upon the earlier to occur of (i) [three-seven] years following the Company's [IF: Qualified IPO] [CF: IPO] or (ii) as to any Investor, at such time as such Investor could sell all of its Series A Preferred during any three-month period under Rule 144.

Subsequent Registration Rights. Following the Closing, the Company shall not grant any registration rights senior to [IF: or pari passu with] those of the Investors without the consent of the holders of [IF: 66 2/3%] [CF: a majority] of the Registrable Securities.

Lock-Up Provision. Each Investor agrees that it will not sell its shares for a specified period (not to exceed [120-180] days) following the effective date of the Company's IPO, provided that all officers, directors, and other [1-5%] stockholders are similarly bound.

Other Provisions. Other provisions shall be contained in the Investor Rights Agreement with respect to registration rights as are reasonable, including cross-indemnification, the period of time in which the Registration Statement shall be kept effective, and underwriting arrangements.

Right of First Refusal: In the event the Company proposes to offer equity securities to any person, each Investor [CF: holding more than _____ shares of Registrable Securities] shall have the right, based on its percentage equity ownership of [IF: Series A Preferred] [CF: Common Stock, measured on a fully-diluted basis] to purchase its pro rata portion of such shares, provided that such right shall terminate upon a [IF: Qualified IPO] [CF: IPO] [CF: acquisition, merger, or consolidation of the Company] and shall not apply to (i) shares of Common Stock issued upon conversion of or as a dividend or distribution on the Series A Preferred, (ii) no more than _____ shares of restricted stock or stock options granted to officers, directors, employees, advisors, or consultants as approved by the Company's Board of Directors [IF: including the Series A Director(s)], (iii) shares of Common Stock subject to outstanding options, warrants, or convertible securities as of the date hereof (iv) shares of Common Stock or rights to purchase Common Stock issued in connection with equipment lease financing arrangements, credit agreements, debt financings, or other commercial transactions unanimously approved by the Board of Directors [IF: including the Series A Director(s)], or (v) shares of Common Stock or rights to purchase Common Stock issued for consideration other than cash pursuant to a merger, consolidation, acquisition, or similar business combination approved by the Board of Directors [IF: including the Series A Director(s)]. [IF: Any securities not subscribed for by an Investor may be reallocated among the other Investors.]

[IPO Participation Rights:] *[IF: To the extent permitted by applicable law and SEC policy, the Investors shall have the right to purchase up to [5-15%] of the shares offered in the Company's IPO. To the extent such right is limited by applicable law or SEC policy, the Investors shall instead have the right to buy that number of shares equal to [5-15%] of the shares offered in the Company's IPO in a concurrent private placement.]*

Purchase Agreement: The investment shall be made pursuant to a Stock Purchase Agreement reasonably acceptable to the Company and the Investors, which agreement shall contain, among other things, appropriate representations and warranties of the Company *[IF: and of the Founders (as defined below)]*, covenants of the Company reflecting the provisions set forth herein and appropriate conditions of closing, including satisfactory completion of financial and legal due diligence and an opinion of counsel for the Company.

Qualified Small Business Stock: The Company shall make representations satisfactory to the Investors that the Series A Preferred is "qualified small business stock" within the meaning of Section 1202 of the Internal Revenue Code of 1986, as amended. Additionally, the Company shall not perform any act that would alter this "qualified small business stock" designation without the consent of a majority of the Board of Directors.

Management Rights Letter: The Company shall execute a Management Rights Letter with each Investor in form and substance acceptable to such Investor.

EMPLOYEE MATTERS

Employee Pool: The Company will reserve _____ shares of its Common Stock ([15-30%] of its fully diluted capital stock following the issuance of its Series A Preferred) for issuances to directors, officers, employees, and consultants, as set forth on **Exhibit [B]** hereto.

Founder Vesting: As of the Closing, the Common Stock held by the Founders ("**Founder Common Stock**") shall vest as follows: *[CF: [25-50%] will vest as of the Closing, with [50-75%] to vest [monthly] [quarterly] over the next [two-four] years. The Company shall have the option to repurchase all unvested Founder Common Stock at cost. [CF: Upon a termination without Cause (which shall include, but not be limited to, failure to perform duties to the satisfaction of the Board of Directors, malfeasance, death, disability, and other acts or omissions commonly included in the definition of Cause) an additional 12 months of the Founder Common Stock shall vest, provided that the same 12 months of otherwise vested Founder Common Stock shall be subject to repurchase by the Company in the event that the Founder voluntarily terminates his employment with the Company.]*

Non-Founder Vesting: Except as otherwise approved by the Investors, all Common Stock, options, and other stock equivalents issued to employees, directors, consultants, and other service providers will be subject to vesting as follows: [25-50%] to vest on the first anniversary of such issuance, with the remaining [50-75%] to vest [monthly] [quarterly] over the next three years. The Company shall have the option to repurchase all unvested shares at cost.

Restrictions on Transfer: *[IF: No transfers of unvested Common Stock shall be permitted.]* No transfers of Common Stock shall be permitted for a specified period (not to exceed (120-180] days) following the effective date of the Company's IPO. The Company's Bylaws shall contain a right of first refusal on all transfers of Common Stock, subject to customary exceptions. If the Company elects not to exercise such right, the Company shall assign such right to the Investors on a pro-rata basis *[IF: (with any shares not subscribed for by an Investor subject to reallocation among the other Investors)].*

Proprietary Information and Inventions Agreements: Prior to the Closing, the Company will enter into Proprietary Information and Inventions Agreements *[IF: in form and substance acceptable to the Investors]* with all officers, employees, and consultants, containing standard provisions with respect to confidentiality, corporate ownership of inventions and innovations, and noncompetition and nonsolicitation of employees and customers.

Right of Refusal and Co-Sale Agreement: The shares of Common Stock held by _____ (the "Founders") shall be subject to restrictions on transfer and made subject to a right of first refusal and co-sale agreement (with the exceptions set forth below) with the Investors such that the Founders may not sell, transfer, or exchange their stock unless the Company first, and each of the Investors, second, has an opportunity to purchase such shares, which purchase with respect to the Investors shall be on a pro-rata basis *[IF: (provided that any shares not subscribed for by an Investor may be reallocated among the other Investors)]* and if such rights are not fully exercised, then each Investor has an opportunity to participate in the sale by a Founder to a third party on a pro-rata basis. These rights of first refusal and co-sale shall not apply to and shall terminate upon a *[IF: Qualified IPO] [CF: IPO] [CF: acquisition, merger, or consolidation of the Company.]*

These rights of first refusal and co-sale will not apply to (i) non-cash transfers to family members or trusts, (ii) a transfer or transfers to any affiliate or (iii) a transfer or transfers by any Founder which in the aggregate do not exceed [1-10%] of the shares of Common Stock owned by such Founder *[IF: on the date of the Closing] [CF: from time to time]*, provided in each case that the transferee agrees to abide by these provisions. The Investors and the Company will have similar rights to acquire shares which would otherwise be transferred involuntarily.

[Drag-Along Rights:] *[IF: So long as the Investors own Registrable Securities representing at least [25-50%] of the Common Stock on a fully-diluted basis, the Investors shall have the right, in the event of a proposed sale of the Company to a third party (whether structured as a merger, reorganization, as set sale or otherwise), to require the Founders to transfer in such sale all of the Company securities then held by them. Such rights will terminate upon a [IF: Qualified IPO]. [CF: IPO] [CF: acquisition, merger, or consolidation of the Company.]*

Key Person Insurance: Prior to the Closing, the Company will obtain a key person life insurance policy on _____, in the amount of \$_____, with the *[IF: Investors] [CF: Company]* as the beneficiary.

[Executive Search:] [The Company will use its best efforts to hire a [Chief Executive Officer] [Chief Financial Officer] acceptable to the Investors as soon as practicable following the Closing.]

[Special Indemnification:] *[IF: To the extent that the Company is required to issue additional shares that are committed, promised, or outstanding and that are not included in the capitalization reflected on **Exhibit [B]** hereto, the Founders will indemnify and hold harmless the [Company] [Investors] against such issuance and will agree to reduce their own share ownership to make up the difference.]*

OTHER MATTERS

Transfer of Rights: Any rights accorded to the Investors may be transferred to (i) any partner or retired partner of any Investor which is a partnership, (ii) any member or former member of any Investor which is a limited-liability company, (iii) any family member or trust for the benefit of any individual Investor, (iv) any transferee who acquires at least _____ shares of Registrable Securities; or (v) any affiliated venture capital fund of an Investor; provided the Company is given written notice thereof.

Conditions Precedent:

to Financing: With the exception of the “Exclusivity” and “Confidentiality” sections herein, this Term Sheet is not intended as a legally binding commitment of the parties, and any obligation on the part of the Investors is subject to the following conditions precedent:

1. Completion of legal documentation satisfactory to the Investors.
2. Satisfactory completion of due diligence by the Investors.
3. [Conversion of the Bridge Notes].

Finders: The Company and the Investors shall each indemnify the other for any broker's or finder's fees for which either is responsible.

Legal Fees and Expenses: Counsel to [Investor] [the Company] will draft documents. The Company will pay the reasonable fees and expenses of [lawyer], counsel to Investor *[CF: up to a maximum of \$20,000.]*

Exclusivity: In consideration of Investor's commitment to devote substantial resources to a due diligence review of the Company and preparation of legal documents relating to this transaction, the Company agrees that during the period between its execution of this Term Sheet and [30-90] days thereafter (or such earlier date that Investor advises the Company in writing that Investor is electing to discontinue efforts with respect to an investment in the Company), it will not and will not permit any of its officers, directors, or agents acting on its behalf to: (i) take any action to solicit, initiate, encourage, or assist the submission of any proposal, negotiation, or offer from any person or entity other than Investor or the other Investors relating to the acquisition, sale, or transfer of any of the capital stock of the Company or the acquisition, sale, lease, license, or other disposition of the Company or any technology or any material part of the assets of the Company; (ii) offer to sell or transfer any of the capital stock of the Company or to sell, lease, license, or otherwise dispose of the Company or any material part of the technology or assets of the Company to any person or entity other than Investor or the other Investors; or (iii) disclose financial or other information relating to the Company other than in the ordinary course of its business to any person or entity other than Investor, the other Investors, or their agents and representatives. The Company acknowledges and agrees that the legal remedies available to Investor in the event the Company violates any of the foregoing covenants would be inadequate and that Investor shall be entitled to obtain specific performance, injunctive relief, and other equitable remedies in the event of any such violation.

Confidentiality: The Company recognizes that this Term Sheet is confidential and that disclosure of the provisions contained herein could cause irreparable harm to Investor and the other Investors. Accordingly, the Company, and each of the Company's agents, officers, and directors acknowledge and agree that the terms, conditions, and contents of this letter will be kept confidential and will not be published or disclosed except in the following circumstances: (i) disclosure may be made to the Company's directors, officers, employees, or representatives who need to know such information for the purpose of evaluating this proposed investment (it being understood that such persons shall be informed by the Company of the confidential nature of such information and shall be required to treat such information confidentially); or (ii) disclosure may be made with the prior written consent of all Investors.

Investor recognizes that the due-diligence materials provided by the Company to Investor are confidential and that disclosure of these terms could cause irreparable harm to the Company. Accordingly, Investor and its agents, officers, and directors acknowledge and agree that the terms, conditions, and contents of this letter will be kept confidential and will not be published or disclosed except in the following circumstances: (i) disclosure may be made to the other Investors and their directors, officers, employees, or representatives who need to know such information for the purpose of evaluating this proposed investment (it being understood that such persons shall be informed of the confidential nature of such information and shall be required to treat such information confidentially); or (ii) disclosure may be made with the prior written consent of the Company.

Expiration: This offer expires in its entirety unless signed and accepted by 5:00 PM [State or Time Zone] time, _____, 200____.

In Witness Whereof, the parties have executed this Term Sheet as of the date set forth below:

Agreed And Accepted:

[COMPANY NAME]

[INVESTOR]

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Date: _____, 200____

Date: _____, 200____

[EXHIBIT A]

[BRIDGE NOTES]

[Investor A] \$_____

[Investor B] \$_____

[Investor C] \$_____

[Investor D] \$_____

EXHIBIT [B]

POST-CLOSING CAPITALIZATION

	AMOUNT OF INVESTMENT	COMMON STOCK EQUIVALENTS	FULLY-DILUTED PERCENTAGE OWNERSHIP
Common Stock			
Founders			
Employee Option Pool*			
Total Common Stock			
Series A Preferred			
Investor			
Other Investors			
[Bridge Note Holders]			
**Total Series A Preferred			
Totals			100.00%

* Available for issuance.

** Assumes full [\$____] million investment [including conversion of outstanding Bridge Notes].