

Term Sheet Agreement (Letter of Intent to quantify
the value of the transaction)

_____ and _____ (the "Investors") are prepared to invest \$_____ in _____ (the "Company") under the terms contained in this term sheet. This term sheet is a non-binding document prepared for discussion purposes only, and the proposed invest is specifically subject to customary stock purchase agreements, legal due diligence, and other conditions precedent contained herein. In consideration of the mutual promises and obligations set forth herein the parties hereto agree as follows:

Issuer (company receiving investment): _____

Closing Date: As soon as practicable following the Company's acceptance of this Term Sheet and satisfaction of the Conditions to Closing (the "**Closing**"). [provide for multiple closings if applicable]

Investors: Investor No. 1: [_____] shares ([_]%), \$[_____]

Investor No. 2: [_____] shares ([_]%), \$[_____]

[as well other investors mutually agreed upon by Investors and the Company]

Amount Raised: \$[_____] , [including \$[_____] from the conversion of principal [and interest] on bridge notes].¹

Price Per Share: \$[_____] per share (based on the capitalization of the Company set forth below) (the "**Original Purchase Price**").

Current Outstanding Securities: _____ shares of Common Stock: ("Common") and options to purchase _____ shares of Preferred Stock

Liquidation Preference: In the event of any liquidation, dissolution or winding up of the Company, the proceeds shall be paid as follows:

[Alternative 1 (non-participating Preferred Stock): First pay [one] times the Original Purchase Price [plus accrued dividends] [plus declared and unpaid dividends] on each share of Series A Preferred (or, if greater, the amount that the Series A Preferred would receive on an as-converted basis). The balance of any proceeds shall be distributed pro rata to holders of Common Stock.]

[Alternative 2 (full participating Preferred Stock): First pay [one] times the Original Purchase Price [plus accrued dividends] [plus declared and unpaid dividends] on each share of Series A Preferred. Thereafter, the Series A Preferred participates with the Common Stock pro rata on an as-converted basis.]

[Alternative 3 (cap on Preferred Stock participation rights): First pay [one] times the Original Purchase Price [plus accrued dividends] [plus declared and unpaid dividends] on each share of Series A Preferred. Thereafter, Series A Preferred participates with Common Stock pro rata on an as-converted basis until the holders of Series A Preferred receive an aggregate of [_____] times the Original Purchase Price (including the amount paid pursuant to the preceding sentence).]

Board Representation: *(The board composition that is proposed will typically contemplate an effective change in the influence, balance, and role of the board as are result of the addition of or substitution of board representation of the investors proposing the term sheet)*

[Alternative 1] The size of the Company's Board of Directors shall initially be set at [Three]. The holders of the Series [A] preferred, voting as a separate class, shall be entitled to elect two members of the Company's Board of Directors, the holders of the Common Stock shall be entitled to elect one member, and the third member shall be mutually agreed upon. The Board shall initially be comprised of _____, _____, _____. Board of Directors will be elected annually. Board of Directors meeting will be held at least four times per year. Until the Company is profitable or the Board otherwise agrees, Board meetings will be targeted for every two months, or six times per year.

[Alternative 2] The size of the Company's Board of Directors shall be set at [five]. The Board shall initially be comprised of _____, _____, _____, _____. At each meeting for the election of directors, the holders of the Series [A] Preferred, voting as a separate class, shall be entitled to elect one member of the Company's Board of Directors, the holders of Common Stock, voting as a separate class, shall be entitled to elect two members, and the remaining directors will be mutually agreed upon by the Common and Preferred. It is anticipated that the Company's CEO will occupy one of the remaining seats. Board of Directors meetings will be held at least four times per year. Until the Company is profitable or the Board otherwise agrees, Board meetings will be targeted for every two months, or six times per year.

[Alternative 3] The size of the Company's Board of Directors shall initially be set at [Five]. All directors shall be elected by the shareholders voting on an as-converted basis.

Voting Rights: *(Voting rights means that in the event that a shareholder vote is called, all shares are treated equally)*

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 shares of Series [A] Preferred.

Information Rights: *[Information rights define the extent to which investors are given access to information in a company]*

[Alternative 1] So long as an Investor continues to hold shares of Series [A] Preferred or Common Stock issued upon conversion of the Series [A] Preferred, the Company shall deliver to the Investor audited annual financial statements, audited by a Big Five accounting firm, and unaudited quarterly financial statements. In addition, the

Company will furnish the Investor with monthly and quarterly financial statements and will provide a copy of the Company's annual operating plan within 30 days prior to the beginning of the fiscal year. Each Investor shall also be entitled to standard inspection and visitation rights.

[Alternative 2] So long as an Investor continues to hold shares of Series [A] Preferred or Common Stock issued upon conversion of the Series [A] Preferred, the Company shall deliver to the Investor audited annual financial statements audited by a Big Five accounting firm and unaudited quarterly financial statements. Each Investor shall also be entitled to standard inspection and visitation rights. These provisions shall terminate upon a registered public offering of the Company's Common Stock.