



TERM SHEET

“SERIES A” ROUND OF FINANCING OF [YOUR COMPANY NAME]

Amount of Investment: \$[AMOUNT]

Investors: [LIST INVESTORS]

Type of Security: Series A Convertible Preferred Stock

Pre-money Valuation: \$[AMOUNT]

Capital Structure Following Series A Round:

| | |
|-------------------------------------|-----------|
| Existing holders of Common Stock | [NUMBER]% |
| Option Pool | [NUMBER]% |
| Holders of Series A Preferred Stock | [NUMBER]% |
| Total | 100% |

Use of Proceeds: The Company shall use the proceeds from this financing for working capital purposes.

Dividends: The Company will not pay dividends on its shares of Common Stock or any other stock which is junior to the Series A Preferred Stock unless a like dividend is paid on all shares of Series A Preferred Stock on a pro rata “as converted” basis.

Conversion: Each share of Series A Preferred Stock shall be convertible, at any time, at the option of the holder, into shares of Common Stock, at an initial conversion ratio of one share of Common Stock for each share of Series A Preferred Stock. Mandatory conversion of the Series A Preferred Stock upon the effectiveness of a registration statement covering a firm and fully underwritten public offering of Common Stock of the Company by a reputable underwriter acceptable to the Investors at a price which equals or exceeds five times the purchase price per share of the Series A Preferred Stock and where the aggregate gross proceeds received by the Company exceeds \$25 million (a “Qualified Public Offering”).



Anti-dilution:

The terms of the Series A Preferred Stock will contain standard “weighted average” anti-dilution protection with respect to the issuance by the Company of equity securities at a price per share less than the applicable conversion price then in effect, subject to standard and customary exceptions. The conversion rate of the Series A Preferred Stock into common stock will be adjusted appropriately to account for any stock splits, recapitalizations, mergers, combinations and asset sales, stock dividends, and similar events. Anti-dilution protection shall not be triggered by the issuance of up to 1,000,000 shares of Common Stock (or options therefore) issued in accordance with the Company’s Stock Option Plan.

Voting Rights:

On all matters submitted for stockholder approval, each share of Series A Preferred Stock shall be entitled to such number of votes as is equal to the number of shares of Common Stock into which such shares are convertible. In addition, the Company shall not, without the prior consent of the holders of at least a majority of the then issued and outstanding Series A Preferred Stock, voting as a separate class:

- a) Issue or create any series or class of securities with rights superior to or on a parity with the Series A Preferred Stock or increase the rights or preferences of any series or class having rights or preferences that are junior to the Series A Preferred Stock so as to make the rights or preferences of such series or class equal or senior to the Series A Preferred Stock.
- b) Pay dividends on shares of the capital stock of the Company.
- c) Effect any exchange or reclassification of any stock affecting the Series A Preferred Stock or any re-capitalization involving the Company and its subsidiaries taken as a whole.
- d) Re-purchase or redeem, or agree to repurchase or redeem, any securities of the Company other than from employees of the Company upon termination of their employment pursuant to prior existing agreements approved by the Board of Directors of the Company.
- e) Enter into any transaction with management or any member of the board of directors, except for employment contracts approved by the Board of Directors and transactions entered at arms-length terms which are no less favorable to the Company than could be obtained from unrelated third parties.
- f) Effect any amendment of the Company's Certificate of Incorporation or Bylaws which would materially adversely affect the rights of the Series A Preferred Stock.
- g) Incur or guarantee debt in excess of [AMOUNT].
- h) Voluntarily dissolve or liquidate.



- i) Effect any merger or consolidation of the Company with or into another corporation or other entity (except one in the holders of the capital stock of the Company immediately prior to such a merger or consolidation continue to hold at least a majority of the capital stock of the surviving entity after the merger or consolidation) or sell, lease, or otherwise dispose of all or substantially all or a significant portion of the assets of the Company.
- j) Change the size of the Board of Directors or change any procedure of the Company relating to the designation, nomination, or election of the Board of Directors.
- k) Amend, alter, or repeal the preferences, special rights, or other powers of the Series A Preferred Stock so as to adversely affect the Series A Preferred Stock.
- l) Make capital expenditures of more than [AMOUNT] in a single expenditure or an aggregate of [AMOUNT] in any twelve-month period.

Liquidation Preference:

The holders of Series A Preferred Stock shall have preference upon liquidation over all holders of Common Stock and over the holders of any other class or series of stock that is junior to the Series A Preferred Stock for an amount equal to the greater of (i) amount paid for such Series A Preferred Stock plus any declared or accrued but unpaid dividends, and (ii) the amount which such holder would have received if such holder's shares of Series A Preferred Stock were converted to Common Stock immediately prior to such liquidation. Thereafter, the holders of Common Stock will be entitled to receive the remaining assets. For purposes of this section, a merger, consolidation, sale of all or substantially all of the Company's assets, or other corporate reorganization shall constitute a liquidation, unless the holders of at least a majority of the Series A Preferred Stock vote otherwise.

Board of Directors:

The Board of Directors of the Company shall be composed of five members. Of these five members, the holders of the Series A Preferred Stock shall have the right to designate two directors (one of such two directors to be designated by ABC Ventures, the other by XYZ Capital), and the founders of the Company shall have the right to designate two directors. The remaining director shall be designated by such four directors.

Options and Vesting:

All stock and options held by founders, management, and employees shall vest over a four-year period. Stock currently held by founders will be considered to be [%] vested as of the closing of this financing with the balance to vest in equal monthly installments over four years. All others



shall vest in equal monthly installments over four years with a one-year cliff at the beginning of the vesting term. Change of control provisions to provide for no more than an additional [%] for founders and select management and one year for all others.

Registration Rights:

Commencing on the earlier of three years from the closing or six months after the effective date of the Company's first public offering, holders of shares of Series A Preferred Stock or shares of Common Stock issued upon conversion thereof ("Registrable Stock") shall have the right to demand two "S-1" registrations with aggregate gross offering price in excess of [AMOUNT] upon customary terms and conditions.

The holders of Series A Preferred Stock will also be entitled to "piggyback" registration rights on Company registrations.

The holders of Series A Preferred Stock will also be entitled to unlimited registrations with at least [AMOUNT] in aggregate gross offering price, on customary terms and conditions.

The Company will bear all expenses related to all registrations and underwritings.

Affirmative Covenants:

While any Series A Preferred Stock is outstanding, the company will:

- a) Maintain adequate property and business insurance.
- b) Comply with all laws, rules, and regulations.
- c) Preserve, protect, and maintain its corporate existence; its rights, franchises, and privileges; and all properties necessary or useful to the proper conduct of its business.
- d) Submit all reports required under the Internal Revenue Code and the regulations promulgated thereunder.
- e) Cause all key employees to execute and deliver non-competition, non-solicitation, non-hire, non-disclosure, and assignment of inventions agreements for a term of their employment with the Company plus one year in a form reasonably acceptable to the Board of Directors.
- f) Not enter into related party transactions without the consent of a majority of disinterested directors.
- g) Reimburse all reasonable out-of-pocket travel-related expenses of the Series A Preferred Stock directors.

**Financial Statements and Reporting:**

The Company will provide all information and materials, including, without limitation, all internal management documents, reports of operations, reports of adverse developments, copies of any management letters, communications with shareholders or directors, and press releases and registration statements, as well as access to all senior managers as requested by holders of Series A Preferred Stock. In addition, the Company will provide the holders of Series A Preferred Stock with unaudited monthly and quarterly and audited yearly financial statements, as well as an annual budget.

Redemption:

Commencing with the date that is five years from the date of closing and on each one-year anniversary of such date thereafter, holders of at least a majority of the then issued and outstanding shares of Series A Preferred Stock may request the Company to redeem their shares at a price equal to the original purchase price for such shares plus any declared but unpaid dividends, with 1/3 of the shares to be redeemed shall be redeemed on such redemption date, an additional 1/3 on the date that is one year from such date, and the remaining 1/3 on the date that is two years from such date.

Right of First Refusal:

Holders of Series A Preferred Stock shall have a pro rata right, based on their percentage of fully diluted equity interest in the company, with an under subscription right up to the total number of shares being offered, to participate in subsequent stock issuances.

Right of First Refusal and Co-sale:

In the event that any of the Founders and existing executive management propose to sell their stock to third parties, the Company shall have the first right to purchase the securities on substantially the same terms as the proposed sale; the Series A Preferred Stockholders shall next have said right according to respective percentage ownership of Series A Preferred Stock or to sell proportionate percentage pursuant to co-sale rights. Such rights shall terminate upon a Qualified Public Offering.

Other Provisions:

The purchase agreement shall include standard and customary representations and warranties of the Company, and the other agreements prepared to implement this financing shall contain other standard and customary provisions. Definitive agreements will be drafted by counsel to the Investors. This term sheet is intended by the parties to be non-binding.

Expenses:

The Company will reimburse the holders of Series A Preferred Stock for reasonable legal fees in connection with the transaction, payable at closing and only in the event that the transactions contemplated by this term sheet are consummated, up to a limit of [AMOUNT].



Conditions to Closing:

Closing shall be subject to the standard and customary conditions, including the completion of due diligence and the delivery to the investors of a legal opinion of counsel to the Company, regarding standard and customary matters and satisfactory to the Investors and their legal counsel.

INVESTOR NAME
[REPRESENTED BY NAME & TITLE]

[YOUR COMPANY NAME]
[REPRESENTED BY NAME & TITLE]