**TERM SHEET**

**Issue:**  [VENTURE CAPITAL FIRM] ("VC") and/or any member of its corporate group ("the VC Group") will purchase up to [AMOUNT] Series A Convertible Preferred Stock ("Series A") newly issued by [YOUR COMPANY NAME] (the "Company") at a price per share of [PRICE] (the "Purchase Price"). In addition, other investors shall purchase at least [AMOUNT] but not more than [AMOUNT] of newly issued Series A at the Purchase Price.

The shares of Series A will be convertible at any time at the option of the holder into common shares of the Company ("Common Stock") on a one-for-one basis, adjusted for future share splits.

The Purchase Price equates to a pre-money valuation of [VALUATION]. The calculation is based on [NUMBER] fully diluted shares of Common Stock. If the number of shares issued, or stock awards/options authorised increases before the closing the price per share for Series A Convertible Preferred Stock shall be reduced so that the pre-money valuation is unchanged.

The Series A Convertible Preferred Stock shall be referred to herein as the "Preferred Stock."

**Dividend:** The Preferred Stock is entitled to an annual [AMOUNT] per share dividend, payable when and if declared by the Board of Directors, but prior to any payment on Common Stock; dividends are not cumulative*.*

**Liquidation Preference:** The Series A will have a liquidation preference so that proceeds on a merger, sale or liquidation (including non-cumulative dividends) will first be paid to the Series A and will include a [%] per annum compounding guaranteed return calculated on the total amount invested. Upon completion of an additional round of funding of at least [AMOUNT] the compounding guaranteed return feature will expire. The liquidation preference will cease to operate if the proceeds due to Series A, on a merger, sale or liquidation on an as-converted basis, exceed the proceeds that would be due under the liquidation preference.

**Use of Proceeds:** The funds raised by Series A will be used principally for general working capital purposes.

**Voting Rights:**  The holders of the Series A shall have the right to vote with the Common Stock on an as-if-converted basis.

**Redemption:** If not previously converted, the Series A is to be redeemed in three equal successive annual instalments beginning [DATE]. Redemption will be at the purchase price plus a [%] per annum cumulative guaranteed return.

**Pre-emptive Rights:** Holders of the Preferred Stock will be granted rights to participate in future equity financings of the Company based upon their pro-rata, as-if-converted, ownership of the Company.

**Automatic Conversion:** The Preferred Stock shall be automatically converted into Common Stock at the then applicable conversion rate (1:1 assuming no share splits) in the event of an underwritten public offering of shares of the Company at a total offering of not less than [AMOUNT] and at a per share public offering price of not less than three times the Series A purchase price per share, adjusted for splits.

**Anti-Dilution:**  Series A shall have weighted average anti-dilution, based on a weighted average formula to be agreed, for all securities purchased as part of this transaction (excluding shares, options and warrants issued for management incentive and small issues for strategic purposes of under [NUMBER] shares*).*

**Management Options:**Simultaneously with this transaction, one million new shares shall expand the Company's management incentive stock option pool – bringing the total number of shares issued and stock incentives (awards and options) authorised to [NUMBER OF SHARES].

**Rights of First Offer; Tag-Along:** The Company and the Investors will have a right of first refusal with respect to any employee's shares proposed to be resold. Alternatively, the Investors will have the right to participate in the sale of any such shares to a third party (co-sale rights), which rights will terminate upon a public offering.

**Information Rights:** Monthly actual vs. plan and prior year. Annual budget [NUMBER] days before beginning of fiscal year. Annual audit by national firm. All recipients of financial statements to execute non-disclosure agreement acceptable to Company counsel. The aforementioned information rights shall be available to each holder of Preferred Stock for as long as such holder owns [NUMBER] shares of Preferred Stock or shares of Common Stock issued upon conversion of shares of Preferred Stock.

**Negative Covenants:** Approval by holders of Preferred Stock of organic changes outside normal course of business and sale, liquidation or merger, increase in board seats or change election procedures, new shares senior to or on par with and all distributions (dividends, repurchases).

**Board of Directors:** The Board will consist of [NUMBER] members. The holders of the Preferred Stock will have the right to designate [NUMBER] directors, the holders of the Common (exclusive of the Investors) will have the right to designate [NUMBER] directors, and the remaining [NUMBER] directors will be unaffiliated persons elected by the Common Stock and the Preferred Stock voting as a single class.

**Stock Restriction Agreement:** All present holders of Common Stock of the Company who are employees of, or consultants to, the Company will execute a Stock Restriction Agreement with the Company pursuant to which the Company will have an option to buy back at cost a portion of the shares of Common stock held by such person in the event that such stockholder's employment with the Company is terminated prior to the date of employment. [%] of the shares will be released each year from the repurchase option based upon continued employment by the Company.

**Non-competition, Proprietary** Each officer and key employee of the Company designated by **Information & Inventions** the Investors will enter into a non-competition, proprietary information and Inventions agreement in a form reasonably acceptable to the Investors.

**Expenses:** The Company shall pay the reasonable expenses of legal counsel to represent the Investors in the completion of the Preferred Stock Agreement and the completion of all due diligence, up to a maximum of [AMOUNT].

**Definitive Purchase & Due Diligence:** The purchase of the Series A will be made pursuant to negotiation of a definitive Series A purchase agreement. Additionally, the closing of this investment will be contingent on the satisfactory completion of VC's due diligence reviews and final investment committee approvals. Such due diligence reviews will include, but not be limited to, a professional review of all legal and financial contracts of the Company.

**Closing:** The Company and VC agree to use their best efforts to close the transaction on or about [DATE]. It is agreeable to have a first closing of the transaction for [AMOUNT] of Series A and leave the transaction open for an additional [NUMBER] days post first closing to close up to [NUMBER] of total Series A.

Other than that the Company hereby agrees to pay Investors' reasonable legal fees of up to [AMOUNT] in case a definitive agreement is not ultimately reached with VC (which agreement is legally binding) the undersigned acknowledge that this term sheet does not constitute a binding agreement, but expresses an agreement in principle covering the principal terms of an equity financing, and an undertaking to proceed in good faith to negotiate a definitive agreement.

This Term Sheet merely constitutes a statement of the present material intentions of the parties, but that except as set forth under the heading “Confidentiality,” “Expenses” and “Exclusivity” above as to which the parties intend to be legally bound, no legally binding agreement or obligation of any party are covered by this Term Sheet. No oral modifications to this principle shall be valid.

This proposal remains open until [DATE], at which point it will be deemed to have been withdrawn.

[YOUR COMPANY NAME] VENTURE CAPITAL FIRM

[REPRESENTED BY NAME & TITLE] [REPRESENTED BY NAME & TITLE]