



SAMPLE TERM SHEET

SUMMARY OF PROPOSED PRINCIPAL TERMS SERIES A CONVERTIBLE PREFERRED STOCK

Amount:	_____ shares of Series A Convertible Preferred Stock ("Preferred Stock"), at a purchase price of \$_____ or approximately \$_____ per share.
Takedowns:	The Preferred Stock shall be taken down in three increments, upon conditions precedent, as follows:
First Increment:	_____ shares (\$_____) shall be purchased upon the closing of the Agreement.
Second Increment:	_____ shares (\$_____) shall be purchased upon reasonable demonstration that: [provide technical benchmarks] Demonstration of the above technical capability shall be evaluated for the Investors by _____.
Final Increment:	_____ shares shall be purchased on or before [date], provided that the first two increments have been purchased, and [provide further technical or marketing benchmarks].
Dividends:	The holders of the Preferred Stock shall be entitled to quarterly dividends at the annual rate of [e.g., 8% of the original purchase price], only if declared by the Board, which shall not accumulate and shall be payable only out of assets legally available therefor [optional: only after the Company has earned \$_____ after taxes for a fiscal year].
Conversion:	The Preferred Stock shall be convertible into _____ shares of the Company's Common Stock at the election of the Investors, provided that the Preferred Stock shall be automatically converted upon a public offering of the Company's securities of at least \$_____ where the Common Stock is offered for not less than \$_____ per share.
Anti-Dilution Provisions:	The Preferred Stock shall be subject to customary weighted average anti-dilution provisions (i.e., if the Company issues additional Common Stock at less than the \$_____ conversion price, an appropriate weighted adjustment would be made in the conversion price).
Redemption Upon Vote of Investors:	The Preferred Stock shall be redeemed in [;e.g., five] equal annual installments commencing in the first fiscal year following a vote [e.g. five years after date of issuance] by the holders of a majority of the outstanding Preferred Stock.
Voting Rights:	The holder of each share of Preferred Stock shall have the right to vote the number of votes equal to the number of common shares issuable upon conversion of the Preferred Stock. The Preferred Stock shall vote with the Common Stock all as a single class.

Liquidation Rights:
[Participating Preferred]

The holders of the Preferred Stock shall be entitled to a liquidation preference in an amount equal to 100% of the par value [or purchase price] per share plus cumulative but unpaid dividends, if any. The liquidation preference shall also be applicable, in the form of a cash payment to the holders of the Preferred Stock, in the event of a sale of all or substantially all of the stock or assets of, or merger or consolidation of, the Company ["Liquidation Event"].

After payment of the full liquidation preference, the Preferred stock will share with the Common Stock any remaining assets, as if the Preferred Stock were fully converted, until the holders of Preferred Stock have received [e.g., 200%] of the original purchase price in the aggregate under this Section.

Preemptive

Holders of Preferred Stock shall have the right to participate in any future sales of securities by the Company (other than (a) options and shares granted or sold to employees, directors and consultants, (b) issuance of stock in connection with corporate acquisitions or joint ventures) on the basis of maintaining their pro rata share of all outstanding common and preferred shares of the company.

Registration

Rights: The holders of the Preferred Stock shall be entitled to two demand registrations (at the expense of the Company) and unlimited piggyback registration rights, provided that any request for a demand registration must be made by the holders of at least a majority of the then outstanding shares of Preferred Stock or common shares issued upon conversion. Registration rights are transferable only with a transfer of at least [e.g., 50%] of the registrable shares.

Information Rights:

Each holder of the Preferred Stock will be furnished with an annual budget and annual audited financial statements within 90 days following the end of each fiscal year, and a trial balance sheet and profit and loss statement from books and records within 30 days following the end of each month [or quarter]. Any holder of the Preferred Stock shall be entitled to inspection rights and a summary of the Company's financial plans.

Representation on Board:

The holders of Preferred Stock shall have the right to designate [e.g., two] _____ directors. The _____ remaining directors will be designated by holders of the Common Stock. One director shall be jointly elected by a majority of common stock and a majority of the Series A Preferred stock, voting as separate classes; and the holders of preferred stock and common stock voting together as a single class shall be entitled to elect any additional directors.

**Right of First Refusal
And Co-Sale Rights:**

The Company shall have a right of first refusal, and the holders of Preferred Stock shall have a right of second refusal with respect to any proposed sale by any Founder to a third party. If neither the Company nor the holders of Preferred Stock exercise such right of refusal, the Selling Founder shall provide a co-sale right to the holders of Preferred Stock to participate in such sale, such pro-rata right to reduce the amount of stock sold by the Founder. These rights of refusal and co-sale rights shall terminate upon the Company's initial public offering or upon sale of the Company through merger, sale of stock or assets or otherwise.

Drag-Along Rights	These rights require the founders to vote their shares in favor of a merger, sale of assets or other reorganization where control of the company is being transferred to a buyer, in the event that the holders of Preferred Stock elect to sell control of the company through such reorganization requiring a vote or consent of shareholders. In order to protect the founders from an unreasonable position such as personal liability on the company's representations and warranties, indemnification of the buyer and other provisions, these types of provisions are excluded from the founders' obligation to approve the reorganization.
Employee Stock Options:	An employee stock option plan shall be established, and an amount of Common Stock up to 10% of the issued and outstanding Common Stock shall be reserved for issuance under the plan.
Protective Rights:	The holders of the Preferred Stock shall, by a vote of majority thereof, have the right to consent to mergers, acquisitions, sales of assets or amendments to the Company's charter documents, creation of any new class of shares having rights or privileges senior to or on a parity with the Preferred Stock, declare any dividends, cancel, exchange, redeem or otherwise acquire any shares of the company's capital stock, authorize a liquidation or Liquidation Event, change the number of directors to a number other than [e.g., five] or any other action which materially and adversely affects the rights, privileges and preferences of the Preferred Stock.
Restrictive Covenants:	<p>As long as 25% or more of the original par value of the Preferred Stock (or the Common Stock into which the Preferred Stock is converted) is outstanding, the holders of the Preferred Stock shall have the following rights:</p> <ol style="list-style-type: none"> 1. Upon certain specified events (e.g., failure to pay accrued dividends, or fall below certain financial ratios), to elect a majority of the Company's Board of Directors, by holding an irrevocable proxy (or voting trust agreement) from the Company's founders sufficient to give the Investors Common Stock voting power equal to at least 51% of the total Common Stock voting power, to wit: the voting rights to approximately _____ shares of Common Stock held by the founders. 2. To approve the sale of any additional common or preferred stock or the incurrence of any long-term debt. 3. To approve the issuance of stock options, other than up to _____ shares to key employees, consultants and directors. 4. To approve any sale or merger of the Company, or dissolution or sale of assets.
Repurchase of Founder's Stock:	The stock held by the founders may be repurchased by the Company at the original purchase price in the event that a founder's employment by the Company is terminated because of voluntary quit or discharge for cause, to wit: by reason of the fact that such founder has been convicted of a felony or has been discharged from employment for theft, dishonesty, misconduct, alcohol or drug addiction, for acts which cause embarrassment to or detrimental publicity of the Company, habitual neglect of his or her duty, or willful breach of duty or gross negligence in carrying out the activ-

ities for which such founder is employed. Voluntary quit shall not be deemed to include termination of employment by death, disability, or because of a substantial reduction in the salary, responsibilities or position of the founder.

Such repurchase rights by the Company shall lapse as follows:

_____ % of the founders' shares at the closing of the Agreement;

_____ % of the founders' shares at the end of each of the first [e.g. three] years after the closing.

Nondisclosure Agreements: The founders will execute appropriate noncompetition and nondisclosure agreements.

Capitalization: After completion of the purchase of Series A Preferred Stock, and assuming full conversion of the Preferred Stock into Common Stock, the Common Stock capitalization of the Company will be as follows:

<u>Holder</u>	<u>No. of Common Shares to be Issued and Outstanding</u>	<u>Price Per Share</u>	<u>% of Total</u>
Founders	_____	_____	_____ %
Series A Preferred Stock Purchasers	_____	_____	_____ %
Directors, Key Employees & Consultants	_____	_____	_____ %
Total	_____	_____	_____
	_____*		100%*

*Subject to issuance of up to _____ common shares for employee stock options.

