**[PASADENA ANGELS] [TECH COAST ANGELS]**

**SERIES A PREFERRED STOCK**

**TERM SHEET**

We are pleased to present to \_\_\_\_\_\_\_\_\_\_\_\_ this non-binding term sheet for an investment led by members of [Pasadena Angels] [Tech Coast Angels]. Binding commitments to invest will be made only through the signature of definitive investment documents by individual angels. The company should not have an expectation of privacy with respect to the financing or the company information provided to investors.

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| **Stock:** | Series A Preferred Stock |
| **Valuation and Capitalization:** | $\_\_\_\_\_\_ per share, based on a pre-money valuation of $\_\_\_\_\_\_\_\_\_\_\_\_\_. See Exhibit A capitalization table. |
| **Minimum and Maximum Raise, Closings:** | Initial closing will have a minimum raise of $\_\_\_\_\_\_\_\_ (excluding conversion of any existing debt). Subsequent closings may occur for 90 days after initial closing. Maximum total raise is $\_\_\_\_\_\_\_\_ (including conversion of approximately $\_\_\_\_\_\_\_\_ existing debt). |
| **Dividends:** | [None] [7% accruing] |
| **Liquidation Preference:** | [1x invested capital][1x invested capital plus accrued dividends] |
| **Participation:** | [Non-Participating. On a sale or dissolution, investors receive the Liquidation Preference, and all remaining proceeds are paid to the common.][Participating Preferred with 2x cap. On a sale or dissolution, after payment to investors of the Liquidation Preference, proceeds will be paid pro-rata to the preferred and the common until the preferred has received 2x its investment. All remaining proceeds are paid to the common.] |
| **[Warrants:]** | [\_\_\_\_\_% warrant coverage. Investors [in the initial closing] receive 5 year warrants to purchase the number of [Series A Preferred Stock] [common stock] equal to their investment amount times \_\_\_\_%, divided by the Series A price per share. The warrant exercise price is [$.001 per share] [the price per share of the Series A]. [\_\_\_% of the warrants are redeemable by the company if the company meets the following performance milestone(s): \_\_\_\_\_\_\_\_]] |
| **Use of Proceeds:** | General working capital. No proceeds shall be used to repay prior investor or founder contributions, or for accrued compensation. |
| **Conversion:** | The Series A is convertible into common 1:1 at any time on a permissible basis, and on a mandatory basis upon a qualified IPO or majority vote of Series A investors.  |
| **Preemptive Rights:** | Investors have the right to buy their pro-rata share in future financing rounds. |
| **Anti-Dilution Protection:** | If the company in the future sells shares at a lesser price than the Series A, investors receive weighted average anti-dilution protection. This does not apply to securities issued:* under the company’s stock option plan
* to acquire another company
* in connection with a bank financing
* upon stock splits, or upon conversion of the Series A or any convertible security presently outstanding
* with the agreement of the Series A director(s) to waive anti-dilution
 |
| **Option Plan:** | The company will have an equity incentive plan with a reserve equal to [10%-20%] of the post-financing fully-diluted capitalization. |
| **Key Person Vesting:** | For \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_% of shares shall be vested upfront, and the remaining \_\_\_% shall be subject to monthly vesting over 4 years. |
| **Intellectual Property, Non-Solicitation:** | All employees and consultants will have signed standard agreements assigning their intellectual property to the company and agreeing not to solicit company personnel. |
| **Voting:** | Series A votes on an as-converted to common basis. |
| **Board:** | There will be \_\_\_ directors on the board. \_\_\_ will be elected by a majority of the [PA/TCA members holding] Series A; \_\_\_ will be elected by a majority of the common, and \_\_\_ will be mutually chosen by a majority of the [PA/TCA members holding] Series A and a majority of the common. |
| **Protective Provisions:** | The board, including the Series A director(s), must approve:* any increase to the authorized Series A
* any amendment of the company’s charter or bylaws or other action which would adversely impact the rights, preferences or privileges of the Series A
* the creation of any class of securities senior to the Series A
* any increase in the size of the board
* any increase to management compensation or equity, and any transaction with management or their affiliates
* sale of the company or its assets
* secured debt or other pledge of company assets

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| **Information Rights:** | Monthly and annual financials within 30 days of months’ end. Quarterly narrative of company progress against business plan. |
| **Drag-Along:** | If a sale of the company or its assets is approved by the board, a majority of the common, and a majority of the Series A, then all stockholders will sell their shares and vote for the transaction. |
| **Indemnity, Insurance:** | The company shall indemnify all board members. At the request of the Series A director(s), the company shall carry D&O insurance, and key person insurance on \_\_\_\_\_\_\_\_\_\_\_\_. |
| **Registration Rights:** | [Investors will be granted any registration rights given to future investors.][Beginning 6 months post-IPO, investors will be given 2 demand registrations at $5 million minimum, 3 S-3 registrations at $1 million minimum, and unlimited piggyback rights. 1% investors will be locked up for 180 days post-IPO provided that management, directors and other 1% holders are similarly bound.] |
| **Right of First Refusal and****Co-Sale Rights:** | [The company will have a right of first refusal in its bylaws. Investors will be granted any rights of first refusal and co-sale given to future investors.][If any of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, sells his or her shares, investors will have a right of first refusal to purchase the shares pro-rata, and also a co-sale right to sell pro-rata.] |
| **[Redemption:]** | [After 6 years, the company will offer to redeem the shares of the investors at the greater of the Liquidation Preference or fair market value.] |
| **Documents and Counsel Fees:** | [Company] [Investor] counsel will prepare the investment documents. Provided the financing closes, the company will pay investor counsel fees not to exceed $\_\_\_\_\_\_\_. |

**EXHIBIT A**

**Capitalization Table**

**Pre-Financing and Post-Financing**