



[NAME OF COMPANY]
SUMMARY OF TERMS
CONVERTIBLE NOTE FINANCING
([DATE])

This summary of terms (this “*Summary of Terms*”) summarizes the principal terms of a convertible note financing of **[Name of Company]**, a **[State of Incorporation]** corporation (the “*Company*”) led by the Tech Coast Angels (“*TCA*”). This Summary of Terms is for discussion purposes only; there is no obligation on the part of any negotiating party until a definitive stock purchase agreement is signed by all parties. The transactions contemplated by this Summary of Terms are subject to closing conditions including the satisfactory completion of due diligence and the execution of definitive financing documents by each investor:

Amount of Financing: \$ _____, with a minimum of \$ _____ and a maximum of \$ _____.

Type of Security: Convertible Promissory Notes (“*Notes*”) in the form attached hereto as Exhibit A.

[Warrant Coverage: __% warrant coverage (the “*Warrants*”) in the form attached hereto as Exhibit B.]

Closing Date: _____, 200__, with additional Closings for the balance of any unsold Notes for up to **[45]** days thereafter.

PRE-FINANCING FULLY DILUTED CAPITALIZATION

	<u>Number of Shares</u>	<u>Percentage</u>
Common Stock Outstanding:	0	
Outstanding Options:	0	
Stock Option Plan Reserved Shares:	0	
[Common Stock Warrants:	0]
[Series A Preferred Stock Warrants:	0]
[Series __ Preferred Stock Warrants:	0]
Series A Preferred Stock:	0	
Series __ Preferred Stock:	0	
TOTAL:	0	100.00%

TERMS OF CONVERTIBLE NOTES [AND WARRANTS]

- Note Term:** On demand by the holder after [**Date OR [one year] after the Closing**], unless earlier converted in connection with a Qualified Financing (as defined below).
- Note Interest:** ___% simple interest from the date the Note is issued through the earlier of (a) repayment of the principal and interest, or (b) automatic conversion of the Note upon a Qualified Financing.
- Conversion:** The principal of each Note [**and all accrued but unpaid interest thereon**] shall be automatically converted into securities of the Company upon the closing of an equity financing of the Company with gross proceeds (including the aggregate principal of the Notes) of at least \$_____ (a "**Qualified Financing**"). The securities issued to the holders of the Notes upon such a conversion shall be of the same class and type[, **at the same price,**] and on the same terms and provisions as the securities issued to the other participants in the Qualified Financing[; **provided, however, that the Notes shall convert based on a price per share which is a ___% discount to the price per share paid by the other participants in the Qualified Financing**]. [NOTE: **GENERALLY DISCOUNT IS IN LIEU OF WARRANT COVERAGE.**]
- Note Repayment:** Upon a Qualified Financing, the principal of each Note [**and all accrued but unpaid interest thereon**] shall be automatically converted as set forth above [**and interest shall be repaid to the holder of each Note in cash**]. If no Qualified Financing occurs, the principal and interest are repayable in cash.
- [Warrants:** Each investor who purchases Notes will receive ___% warrant coverage (i.e., a warrant to purchase that number of shares of [**Common Stock OR securities issued in the Qualified Financing**] equal to ___% of the number of securities issuable upon conversion of [**the principal amount of**] the Notes in the Qualified Financing). Each warrant will have a [**five**] year term and an exercise price equal to [**\$___ OR the price per share of the securities issued in the Qualified Financing**].]
- Amendment of Notes [and Warrants]:** The terms and conditions of the Notes [**and Warrants**] may be amended after the Closing by the holders of a majority in principal of the Notes.

[Protective Covenant/s]:

Following the Closing, without the approval the holders of a majority in principal of the Notes, the Company shall not **[(i)]** incur any debt which is senior or pari passu to the debt represented by the Notes[, **(ii) enter into any debt or equity financing, including a Qualified Financing, (iii) issue any securities other than pursuant to its existing stock option plan and as approved by the Company's Board of Directors, or (iv) increase the number of shares reserved under its existing stock option plan [CONSIDER OTHER COVENANTS].]**

[Note Purchase Agreement:

The Notes shall be issued pursuant to a Convertible Note Purchase Agreement drafted by counsel to **[the Company OR the purchasers of the Notes]**. The Convertible Note Purchase Agreement shall contain, among other things, appropriate representations and warranties of the Company and covenants of the Company reflecting the provisions set forth herein[, **including the requirement that counsel to the Company deliver a legal opinion to the purchasers of the Notes].]**

Employee and Founder Common Stock:

(1) Common Stock issued to employees will be issued from time to time under such arrangements, contracts or plans as are recommended by management and approved by the Board. Unless otherwise determined by the Board, all such Common Stock will be issued subject to four-year vesting or repurchase restrictions. Common Stock acquired under a restricted stock purchase plan or stock option plan will be subject to repurchase by the Company upon termination of employment to the extent that the four year vesting or restriction period has not expired. Repurchase in all cases will be at cost.

(2) **[Describe Founder vesting, e.g. Common Stock held by the Founders will be subject to a right of repurchase at cost lapsing over four years following the Closing, or earlier upon a change of control [NOTE: SENSITIVE ISSUE, CONSIDER CAREFULLY].]**

(3) No transfer of Common Stock will be allowed prior to vesting. The Company will have a right of first refusal on all transfers of vested Common Stock, terminating upon an initial public offering.

Confidential Information and Inventions:

Each officer and employee of the Company has entered, and each person serving in any such capacity in the future will enter, into the Company's standard form of confidential information and inventions assignment agreement. Each technical consultant and advisor will enter into an agreement

with comparable provisions relating to confidentiality and the assignment of inventions.

Compensation Committee:

The Board of Directors will establish a Compensation Committee, which will be composed of the TCA and outside members of the Board.

Management Rights Letter:

The Company will enter into TCA's standard form of management rights letter.

Directors' and Officers' Insurance:

The Company will maintain directors' and officers' insurance with coverage in the amount of \$2 million.

Key Person Life Insurance:

The Company will maintain key person life insurance in the amount of \$2 million on _____, with proceeds payable to the Company.

Expenses:

The Company will pay at the Closing the reasonable legal fees and expenses (in an amount not to exceed \$ _____ **[SUGGEST \$20,000 PLUS OR MINUS DEPENDING ON OVERALL SIZE OF DEAL, WHETHER TCA IS LEAD AND HOW MUCH TCA IS EXPECTED TO INVEST]**) in the aggregate) incurred by legal counsel to TCA.

No Offer:

This Summary of Terms and any documents delivered by the Company in connection therewith are for informational purposes only and do not constitute either an offer to sell securities or the solicitation of an offer to buy securities. There will be no offer or sale of securities, or any solicitation to buy, in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

No-Shop:

The Company agrees that until 90 days after the date of this Summary of Terms (or such earlier date that the parties hereto mutually agree in writing to discontinue efforts with respect to the proposed financing), the Company will not take any action to solicit, initiate, encourage or assist the submission of any proposal, negotiation, or offer from any person or entity, other than parties hereto and investors contemplated herein, relating to any debt or equity financing of the Company. The Company acknowledges and agrees that the legal remedies available to TCA in the event that the Company violates the foregoing covenant would be inadequate and that TCA shall be entitled to obtain, specific performance, injunctive relief and other equitable remedies in the event of any such violation.

TCA Counsel:

[_____

_____]

Phone: (____) ____ - ____

Fax: (____) ____ - ____

Email: _____]

Counsel to the Company:

[_____

_____]

Phone: (____) ____ - ____

Fax: (____) ____ - ____

Email: _____]

EXHIBIT A

FORM OF CONVERTIBLE PROMISSORY NOTE

EXHIBIT B
FORM OF WARRANT]