



**TERM SHEET**  
**STANDARD SERIES A PREFERRED STOCK FINANCING**  
DATE

**THIS TERM SHEET SUMMARIZES THE PRINCIPAL TERMS OF A PROPOSED INVESTMENT FROM THE OREGON ANGEL FUND ("OAF" AND "INVESTOR") IN \_\_\_\_\_, INC., A \_\_\_\_\_ CORPORATION (THE "COMPANY"). THIS TERM SHEET 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.**

This term sheet draws extensively from the National Venture Capital Association's *Model Term Sheet* and is designed to be straightforward, investor/company neutral, and reflect current angel and venture standard investment practices. To facilitate the financing, this term sheet intentionally omits some typical investor rights and preferences occasionally considered contentious, including re-vesting of founder shares, company buyback rights to founder shares, requiring founders to vote with the investors when selling the company ("drag along" rights), a "no-shop/confidentiality" clause, and other frequently required provisions. The OAF managers are not authorized to deviate materially from the terms outlined below.

**Offering Terms**

*Closing Date:* An initial closing (the "**Initial Closing**") will occur at such time as the Company has received subscriptions for Series A Preferred Stock representing in the aggregate at least \$\_\_\_\_\_, but no later than \_\_\_\_\_ (date). Subsequent closings may occur up to the earlier of three (3) months after the Initial Closing or on the date on which the Company has accepted subscriptions for Series A Preferred Stock in the aggregate of \$\_\_\_\_\_.

*Investors:* Oregon Angel Fund 2012, LLC \$\_\_\_\_\_.  
Additional existing and new investors.

*Size of Offering:* A minimum of \$\_\_\_\_\_ and a maximum of \$\_\_\_\_\_, such minimum and maximum excluding those outstanding convertible notes issued by the Company in the aggregate of \$\_\_\_\_\_.

*Price Per Share:* \$\_\_\_\_\_ per share (based on the capitalization of the Company set forth below) (the "**Original Purchase Price**").

*Pre-Money Valuation:*

The Original Purchase Price is based upon a fully-diluted pre-money valuation of \$\_\_\_\_\_ and a fully-diluted post-money valuation of \$\_\_\_\_\_ (assuming the minimum raise) (including a pre-money, uncommitted employee equity pool representing 20% of the fully diluted post-money capitalization).

*Employee Stock Pool:*

Uncommitted options equal to 20% of the Company’s fully diluted post-money capital structure as set forth below in “Capitalization.”

The Company shall meet with a representative of OEN’s Entrepreneurs Foundation of the Northwest in order to evaluate the potential donation of a stock option from the uncommitted employee option pool to the benefit of the community.

*Capitalization:*

The Company's capital structure before and after the Closing is set forth below (assuming the offering is fully subscribed):

<b>Security</b>	<b>Pre Financing Number</b>	<b>Pre-Financing Percent</b>	<b>Post-Financing Number</b>	<b>Post-Financing Percent</b>
Common				
Common Options (Issued)				
Warrants				
Option Pool (Unissued)				20%
Series A	0	0%		
Converted Notes (Series A)				
<b>TOTAL</b>		<b>100%</b>		<b>100%</b>

*Expiration:*

This Term Sheet expires on \_\_\_\_\_ 2012, if not accepted by the Company by that date.

**Terms of Series A Preferred Stock**

*Dividends:*

Non-cumulative dividends will be paid on the Series A Preferred at a rate of eight percent (8%) per annum when and if declared by the Board. The holders of Series A Preferred also shall be entitled to participate pro rata in any dividends paid on the Common Stock on

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an as-if-converted basis.

*Liquidation Preference:*

In the event of any liquidation, dissolution or winding up of the Company, the proceeds shall be paid as follows:

First pay one (1) times the Original Purchase Price plus declared and unpaid dividends on each share of Series A Preferred. Thereafter, the Series A Preferred participates with the Common Stock on an as-converted basis until the holders of Series A Preferred receive an aggregate of two (2) times the Original Purchase Price (the "**Initial Payment**").

If, in the event of any liquidation, dissolution or winding up of the Company, the holders of Series A Preferred would receive on an as-converted basis more than the Initial Payment per share, then such holders shall not receive the Initial Payment, but shall instead participate in liquidation distributions on an as-converted to Common Stock basis.

A merger or consolidation (other than one in which shareholders of the Company own a majority by voting power of the outstanding shares of the surviving or acquiring corporation) and a sale, lease, transfer or other disposition of all or substantially all of the assets of the Company will be treated as a liquidation event (a "**Deemed Liquidation Event**"), thereby triggering payment of the liquidation preferences described above, unless the holders of 67% of the Series A Preferred elect otherwise.

*Voting Rights:*

The Series A Preferred Stock shall vote together with the Common Stock on an as-converted basis, and not as a separate class, except (i) the Series A Preferred as a class shall be entitled to elect one (1) member of the Board (the "**Series A Director**"), (ii) as provided under "Protective Provisions" below, or (iii) as required by law.

*Protective Provisions:*

So long as at least \_\_\_\_\_ shares of Series A Preferred are outstanding, the Company will not, without the written consent of the holders of at least 67% of the Company's Series A Preferred, either directly or by amendment, merger, consolidation, or otherwise:

- (i) liquidate, dissolve or wind-up the affairs of the Company, or effect any Deemed Liquidation Event; (ii) amend, alter, or repeal any provision of the Articles of Incorporation or Bylaws in a manner adverse to the Series A Preferred; (iii) create or authorize the creation of or issue any other security convertible into or exercisable for any equity security, having rights, preferences or privileges senior to or on parity with the Series A Preferred, or increase the authorized number of shares of Series A Preferred;

(iv) purchase or redeem or pay any dividend on any capital stock ranking junior to or on parity with the Series A Preferred, other than stock repurchased from former employees or consultants in connection with the cessation of their employment/services, at a price no greater than cost; (v) create or authorize the creation of any debt security unless such debt security has received the prior approval of the Board of Directors; or (vi) increase or decrease the size of the Board of Directors.

*Optional Conversion:*

The Series A Preferred initially converts 1:1 to Common Stock at any time at option of holder, subject to adjustments for stock dividends, splits, combinations and similar events and as described below under "Anti-dilution Provisions."

*Anti-dilution Provisions:*

In the event that the Company issues additional securities at a purchase price less than the current Series A Preferred conversion price, such conversion price shall be subject to proportional adjustment on a broad-based weighted average basis, provided that the following issuances shall not trigger anti-dilution adjustment:

(i) securities issuable upon conversion of any of the Series A Preferred, or as a dividend or distribution on the Series A Preferred; (ii) securities issued upon the conversion of any debenture, warrant, option, or other convertible security; (iii) Common Stock issuable upon a stock split, stock dividend, or any subdivision of shares of Common Stock; (iv) shares of Common Stock (or options to purchase such shares of Common Stock) issued or issuable to employees or directors of, or consultants to, the Company from the option pool existing at the time of the Closing; and (v) shares of Common Stock issued or issuable to banks, equipment lessors pursuant to a debt financing, equipment leasing or real property leasing transaction approved by the Board of Directors of the Company.

*Mandatory Conversion:*

Each share of Series A Preferred will automatically be converted into Common Stock at the then applicable conversion rate (i) in the event of the closing of a firm commitment underwritten public offering with a price of at least three (3) times the Original Purchase Price (subject to adjustments for stock dividends, splits, combinations and similar events) and net proceeds to the Company of not less than \$20,000,000, or (ii) upon the written consent of the holders of 67% of the Series A Preferred.

## **Stock Purchase Agreement**

*Representations and Warranties:* Standard representations and warranties by the Company.

*Conditions to Closing:* Standard conditions to Closing, which shall include, among other things, satisfactory completion of financial and legal due diligence, satisfactory review of Company's salary schedules, satisfactory review of Company's licensing agreements and intellectual property disclosures and filings, qualification of the shares under applicable Blue Sky laws, the filing of a Articles of Incorporation establishing the rights and preferences of the Series A Preferred, and an opinion of counsel to the Company.

*Counsel and Expenses:* Investor counsel to draft closing documents. Company to pay all legal and administrative costs of the financing at Closing, including reasonable fees (not to exceed \$20,000) and expenses of Investor counsel.

## **Investor Rights Agreement**

*Registration Rights:*

*Registrable Securities:* All shares of Common Stock issuable upon conversion of the Series A Preferred and any other Common Stock held by the Investors will be deemed "**Registrable Securities.**"

*Demand Registration:* Upon earliest of (i) five (5) years after the Closing; or (ii) six (6) months following an initial public offering ("**IPO**"), persons holding 50% of the Registrable Securities may request two (2) consummated registrations by the Company of their shares. The aggregate offering price for such registration may not be less than \$10,000,000. A registration will count for this purpose only if (i) all Registrable Securities requested to be registered are registered, and (ii) it is closed, or withdrawn at the request of the Investors (other than as a result of a material adverse change to the Company).

*Registration on Form S-3:* The holders of 30% of the Registrable Securities will have the right to require the Company to register on Form S-3, if available for use by the Company, Registrable Securities for an aggregate offering price of at least \$3,000,000. There will be no limit on the aggregate number of such Form S-3 registrations, provided that there are no more than two (2) per year.

*Piggyback Registration:* The holders of Registrable Securities will be entitled to "piggyback" registration rights on all registration statements of the Company, subject to the right, however, of the Company and its underwriters to

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reduce the number of shares proposed to be registered to a minimum of 30% on a pro rata basis and to complete reduction on an IPO at the underwriter's discretion. In all events, the shares to be registered by holders of Registrable Securities will be reduced only after all other shareholders' shares are reduced.

*Expenses:*

Registration expenses will be borne by the Company. The Company will also pay the reasonable fees and expenses of one (1) special counsel to represent all the participating shareholders.

*Lock-up:*

Investors shall agree in connection with the IPO, if requested by the managing underwriter, not to sell or transfer any shares of Common Stock of the Company for a period of up to 180 days following the IPO provided all directors and officers of the Company and five percent (5%) shareholders agree to the same lock-up. Such lock-up agreement shall provide that any discretionary waiver or termination of the restrictions of such agreements by the Company or representatives of the underwriters shall apply to Investors, pro rata, based on the number of shares held.

*Termination:*

Earlier of five (5) years after IPO, upon a Deemed Liquidation Event, or when all shares of an Investor are eligible to be sold without restriction under Rule 144 within any 90-day period.

No future registration rights may be granted without consent of the holders of 67% of the Registrable Securities unless subordinate to the Investor's rights.

*Information Rights:*

Any Major Investor will be granted access to Company facilities and personnel during normal business hours and with reasonable advance notification. The Company will deliver to such Major Investor (i) annual and quarterly financial statements, and other information as determined by the Board; (ii) 30 days prior to the end of each fiscal year, a comprehensive operating budget forecasting the Company's revenues, expenses, and cash position on a month-to-month basis for the upcoming fiscal year; and (iii) promptly following the end of each quarter an up-to-date capitalization table, certified by the CFO.

A "**Major Investor**" means any Investor who purchases at least \$500,000 of Series A Preferred.

No later than January 30 of each year, the Company will provide OAF with its (i) current employee count, (ii) aggregate wages for Oregon-based employees during prior calendar year, and (iii) total amount of taxes remitted to the State of Oregon during prior calendar year. OAF provides aggregated, non-company-specific

reports of these data to the Oregon Growth Account and State Treasurer of Oregon.

*Public Relations*

The Company shall use its best efforts to include, at minimum, an approved one-sentence mention of the Oregon Angel Fund as an investor in the Company in each of its financially oriented press releases, until the Company is sold or completes an initial public offering.

The Company shall use its best efforts to send at least one (1) representative of its leadership team to participate in OAF's annual investor meeting, held in Portland, Oregon, during February or March of each year.

*Right to Participate Pro Rata in Future Rounds:*

All Major Investors shall have a pro rata right, based on their percentage equity ownership in the Company (assuming the conversion of all outstanding Preferred Stock into Common Stock and the exercise of all outstanding options and warrants), to participate in subsequent issuances of equity securities of the Company (excluding those issuances listed at the end of the "Anti-dilution Provisions" section of this Term Sheet). In addition, should any Major Investor choose not to purchase its full pro rata share, the remaining Major Investors shall have the right to purchase the remaining pro rata shares. This right shall be assignable by Major Investors to their affiliates and by Oregon Angel Fund 2012, LLC to any fund under common management with it.

*Matters Requiring Series A Director Approval:*

So long as 67% (or \_\_\_\_\_ shares) of the originally issued Series A Preferred remains outstanding the Company will not, without Board approval, which approval must include the affirmative vote of the Series A Director:

- (i) make any loan or advance to, or own any stock or other securities of, any subsidiary or other corporation, partnership, or other entity unless it is wholly owned by the Company;
- (ii) make any loan or advance to any person, including, any employee or director, except advances and similar expenditures in the ordinary course of business or under the terms of an employee stock or option plan approved by the Board of Directors;
- (iii) guarantee, any indebtedness except for trade accounts of the Company or any subsidiary arising in the ordinary course of business;
- (iv) make any investment other than investments in prime commercial paper, money market funds, certificates of deposit in any United States bank having a net worth in excess of \$100,000,000 or obligations issued or guaranteed by the United States of America, in each case having a maturity not in excess of two (2) years;
- (v) incur any aggregate indebtedness in excess

of \$100,000 that is not already included in a Board-approved budget, other than trade credit incurred in the ordinary course of business; (vi) enter into or be a party to any transaction with any director, officer or employee of the Company or any "associate" (as defined in Rule 12b-2 promulgated under the Exchange Act) of any such person, other than transactions made in the ordinary course of business and pursuant to reasonable requirements of the Company's business and upon fair and reasonable terms that are approved by a majority of the Board of Directors; (vii) hire, fire, or change the compensation of the executive officers, including approving any option grants; (viii) change the principal business of the Company, enter new lines of business, or exit the current line of business; or (ix) sell, transfer, license, pledge or encumber technology or intellectual property, other than licenses granted in the ordinary course of business.

*Non-Competition and Non-Solicitation and Agreements:*

Each Founder (as defined below) and key employee will enter into a one (1) year non-competition and non-solicitation agreement in a form reasonably acceptable to the Investors.

*Non-Disclosure and Developments Agreement:*

Each current and former Founder, employee and consultant with access to Company confidential information/trade secrets will enter into a non-disclosure and proprietary rights assignment agreement in a form reasonably acceptable to the Board, including the Series A Director.

*Board Matters:*

The Board of Directors shall meet at least quarterly, unless otherwise agreed by a vote of the majority of Directors. Board committee members shall be designated by a vote of the majority of Directors; *provided, however*, that the Series A Director shall be entitled to sit on the Compensation and Audit committees.

*Board Compensation:*

OAF suggests that the Company consider compensating each non-employee member of the Board of Directors for such service by granting such non-employee director on an annual basis a nonqualified stock option exercisable for that number of shares of the Company's Common Stock equal to not less than 0.01% of the Company's fully-diluted capital structure, which options shall vest monthly over a 12 month period.

*Employee Stock Options:*

All employee options granted after Closing will vest as follows: 25% after one (1) year, with remaining options vesting monthly over next 36 months.

*Key Person Insurance:*

Company to acquire life insurance on \_\_\_\_\_ (the "**Founder**") in an amount satisfactory to the Board. Proceeds

payable to the Company.

*Termination:*

All rights under the Investor Rights Agreement, other than registration rights, shall terminate upon the earlier of an IPO, a Deemed Liquidation Event, or a transfer of more than 50% of Company's voting power.

**Right of First Refusal/Co-Sale Agreement and Voting Agreement**

*Right of first Refusal/  
Right of Co-Sale (Take-me-  
Along):*

Company first and Investors second (to the extent assigned by the Board of Directors) have a right of first refusal with respect to any shares of capital stock of the Company proposed to be sold by Founders and employees holding greater than five percent (5%) of Company Common Stock (assuming conversion of Preferred Stock), with a right of oversubscription for Investors of shares unsubscribed by the other Investors. Before any such person may sell Common Stock, he will give the Investors an opportunity to participate in such sale on a basis proportionate to the amount of securities held by the seller and those held by the participating Investors.

*Board of Directors:*

At the initial Closing, the Board shall consist of a minimum of three (3) members comprised of (i) \_\_\_\_\_ as the representative designated by OAF, as the lead Investor, (ii) \_\_\_\_\_ as the CEO, and (iii) up to one (1) additional person who is not employed by the Company and who is mutually acceptable to the holders of a majority of the Common Stock and the holders of a majority of the Series A Preferred Stock. The Founders and holders of Series A Preferred shall enter into a Voting Agreement to vote their shares to maintain the above described board composition.

*Directors and Officers  
Insurance:*

Within 45 days of the Initial Closing, the Company shall purchase and shall thereafter maintain a policy or policies of directors and officers liability insurance on terms and conditions reasonably acceptable to the Company and the Series A Director.

*Termination:*

All rights under the Right of First Refusal/Co-Sale and Voting Agreements shall terminate upon an IPO, a Deemed Liquidation Event or a transfer of more than 50% of Company's voting power.

**Acknowledged and accepted:**

\_\_\_\_\_, Inc.

**Oregon Angel Fund 2012, LLC**

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_