

TERM SHEET
FOR SERIES A PREFERRED STOCK FINANCING OF
_____, INC.

_____, 201_

This Term Sheet summarizes the principal terms of the Series A Preferred Stock Financing of _____, Inc., a _____ corporation (the "Company"). No legally binding obligations shall be created until definitive agreements are executed and delivered by all parties. This Term Sheet is not a commitment to invest, and is conditioned on the completion of due diligence, legal review and documentation that is satisfactory to the Investors. This Term Sheet shall be governed in all respects by the laws of the State of Oregon.

Offering Terms

Amount Raised; Minimum Investment; Investor Qualifications:

Up to \$_____. The minimum investment shall be \$_____ ; however the Company may, at its sole discretion, accept investments of a lesser amount. The Series A Preferred Shares are only being offered to "accredited investors" as that term is defined in Rule 501(a) under the Securities Act of 1933, as amended (the "Act"). Investors are required to complete and deliver to the Company a Confidential Investor Questionnaire prior to investing

Closing Date:

As soon as practicable following the Company's acceptance of this Term Sheet and satisfaction of the Conditions to Closing (the "Closing").

Price Per Share:

\$_____ per share (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 \$_____.

Capitalization:

The Company's pre and post-financing capitalization is set in Attachment A.

CHARTER

Dividends:

Dividends shall be paid on the Series A Preferred on an as-converted basis when, as, and if paid on the Common Stock.

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 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.

A merger or consolidation (other than one in which stockholders 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 shall be treated as a liquidation event (a “**Deemed Liquidation Event**”), thereby triggering payment of the liquidation preferences described above.

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. The Company’s Amended and Restated Articles of Incorporation shall provide that the number of authorized shares of Common Stock may be increased or decreased with the approval of a majority of the Preferred and Common Stock, voting together as a single class, and without a separate class vote by the Common Stock.

Protective Provisions:

So long as sixty percent (60%) of the shares of Series A Preferred are outstanding, the Company shall not, without the written consent of the holders of at least fifty percent (50%) 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; or (iv) purchase or redeem or pay any dividend on any capital stock prior to the Series A Preferred, other than as approved by the Board, including the approval of the Series A Director.

Optional and Mandatory

The Series A Preferred initially converts 1:1 to Common Stock at any time at option of holder, subject to adjustments for stock

Conversion:

dividends, splits, combinations and similar events. Each share of Series A Preferred shall automatically be converted into Common Stock at the then applicable conversion rate in the event of the closing of an underwritten public offering where the gross proceeds of such offering are at least \$ _____ with a price per share of at least \$ _____, after giving effect to adjustments for stock dividends, splits, combinations and similar events (a "***Qualified IPO***"). Additionally each class or series of Preferred Stock shall be automatically converted into Common Stock upon the written consent of a majority of each class or series voting as a separate class.

Pay-to-Play:

On any subsequent down round, all Investors are required to participate to the full extent of their participation rights (as described below under "Investor Rights Agreement – Right to Participate Pro Rata in Future Rounds"), unless the participation requirement is waived for all Investors by the Board. All shares of Series A Preferred of any Investor failing to do so shall automatically convert to Common Stock and lose the right to a Board seat if applicable.

STOCK PURCHASE AGREEMENT

Representations and Warranties:

The Stock Purchase Agreement shall contain customary representations and warranties by the Company including (i) as to intellectual property ownership by the Company; (ii) as to liabilities of the Company; and (iii) as to capitalization of the Company including all outstanding options, warrants or other rights of any third party to acquire any equity securities of the Company at any time.

Conditions to Closing:

Standard conditions to Closing, which shall include, among other things, satisfactory completion of financial and legal due diligence, qualification of the shares under applicable Blue Sky laws, and the filing of the Amended and Restated Articles of Incorporation establishing the rights and preferences of the Series A Preferred.

Counsel and Expenses:

Counsel to the Company shall draft closing documents. Company and each respective Investor shall pay their own costs and fees incurred in the financing.

Company Counsel:

Attn: _____

INVESTOR RIGHTS AGREEMENT

Registration Rights:

Registrable Securities: All shares of Common Stock issuable upon conversion of the Series A Preferred shall 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 thirty percent (30%) of the Registrable Securities may request one registration by the Company of their shares. The aggregate offering price for such registration may not be less than \$__ million. A registration shall 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 thirty percent (30%) of the Registrable Securities shall 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 \$__ million. There shall 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 shall 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 reduce the number of shares proposed to be registered to a minimum of thirty percent (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 shall be reduced only after all other stockholders' shares are reduced.

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, excluding shares acquired in or following the IPO, for a period of up to 180 days following the IPO (provided all directors and officers of the Company and five percent (5%) stockholders 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 Major Investors, pro rata, based on the number of shares held. A "*Major Investor*" means any Investor who purchases at least \$_____ of Series A Preferred.

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(k) within any 90-day period.

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

Management and Information Rights:

A Management Rights letter from the Company, in a form reasonably acceptable to the Investors, shall be delivered prior to Closing to each Investor that requests one.

Any Major Investor, who is not a competitor, shall be granted access to Company facilities and personnel during normal business hours and with reasonable advance notification. The Company shall deliver to such Major Investor (i) annual and quarterly financial statements, and other information as determined by the Board; (ii) thirty (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 Chief Financial Officer.

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 options outstanding under the Company's stock plans), to participate in subsequent issuances of equity securities of the Company (excluding those issuances in connection with acquisitions by the Company). In addition, should any Major Investor choose not to purchase its full pro rata share, the remaining Investors shall have the right to purchase the remaining pro rata shares.

Non-Disclosure and Developments Agreement:

Each Founder, employee and consultant with access to Company confidential information/trade secrets shall enter into a non-disclosure and proprietary rights assignment agreement in a form reasonably acceptable to the Investors.

Board Matters:

The Board of Directors shall meet at least quarterly, unless otherwise agreed by a vote of the majority of Directors.

In the event the Company merges with another entity and is not the surviving corporation, or transfers all of its assets, proper provisions shall be made so that successors of the Company assume Company's obligations with respect to indemnification of Directors.

QSB Stock: Company shall use commercially reasonable efforts to cause its capital stock to constitute Qualified Small Business Stock unless the Board determines that such qualification is inconsistent with the best interests of 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 fifty percent (50%) of Company's voting power.

RIGHT OF FIRST REFUSAL/CO-SALE AGREEMENT

*Right of First Refusal/
Right of Co-Sale:* 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 any employees holding greater than two percent (2%) 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 or she shall 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.

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 fifty percent (50%) of Company's voting power.

EXECUTED THIS ____ DAY OF _____ 201_.

COMPANY

INVESTOR

(Name, Title)

By: _____

Name: _____

Title: _____

ATTACHMENT A
PRE AND POST-CLOSING CAPITALIZATION
(to be provided)