

CONVERTIBLE NOTE TERM SHEET

This is a summary of the principal terms of a convertible note financing (the “**Financing**”). This term sheet is for discussion purposes only and is not intended to be construed as a binding agreement. The parties do not intend to be bound until they enter into definitive agreements regarding the subject matter of this term sheet.

Offering Terms

Issuer:	[COMPANY NAME], a [STATE] corporation (the “ Company ”).
Security:	Convertible promissory notes (each, a “ Note ,” and collectively, the “ Notes ”).
Purchasers:	[[NAMES]/Investors selected by the Company in its sole discretion] (each, a “ Purchaser ,” and collectively, the “ Purchasers ”).
Amount:	Up to US\$[AMOUNT].

Convertible Note Terms

Principal:	The Company may issue one or more Notes, each with a principal amount equal to the dollar amount the Company receives from the Purchaser of such Note.
Interest:	Interest will accrue on the principal balance of each Note at a simple rate of 2% per annum calculated on the basis of a 360-day year, provided that the interest rate shall increase to 4% per annum during any Event of Default (the “ Default Rate ”).
Maturity:	The principal and unpaid accrued interest on each Note then outstanding will be due and payable upon demand by the Requisite Noteholders (as defined below) on or after the date (the “ Maturity Date ”) that is 3 years following the date of the initial closing.
Conversion Events:	<p>The principal and unpaid accrued interest on each Note will convert:</p> <ul style="list-style-type: none"> (i) automatically, upon the Company’s issuance of equity securities (the “Next Equity Financing”) in a single transaction, or series of related transactions, with aggregate gross proceeds to the Company of at least \$500,000, excluding proceeds from the issuance of any simple agreements for future equity (“SAFEs”) or convertible debt (including the Notes), into shares of the Company’s capital stock issued to investors in the Next Equity Financing (a “Next Equity Financing Conversion”); (ii) at the Purchaser’s option, in the event of a Corporate Transaction (as defined below) while such Note remains outstanding, into shares of the Company’s Common Stock (a “Corporate Transaction Conversion”); and (iii) at the Requisite Noteholders’ option, on or after the Maturity Date while such Note remains outstanding, into Common Stock (a “Maturity Conversion”). <p>Securities issued pursuant to the conversion of Notes will be referred to herein as “Conversion Shares.”</p>
Conversion Price:	<p>The price per share of Conversion Shares will be:</p> <ul style="list-style-type: none"> (i) with respect to a Next Equity Financing Conversion, the price that is the lesser

	<p>of (A) 20% (the “Discount”) less than the lowest price per share of shares sold in the Next Equity Financing and (B) the price per share implied by a \$2,500,000 pre-money valuation (the “Valuation Cap”), calculated based on the Company’s fully diluted capitalization immediately prior to the closing of the Next Equity Financing;</p> <p>(ii) with respect to a Corporate Transaction Conversion, the price per share implied by a pre-money valuation equal to the Valuation Cap, calculated based on the Company’s fully diluted capitalization immediately prior to the closing of the Corporate Transaction; and</p> <p>(iii) with respect to a Maturity Conversion, the price per share implied by a pre-money valuation equal to the Valuation Cap, calculated based on the Company’s fully diluted capitalization immediately prior to the Maturity Conversion.</p>
<p>Corporate Transaction Payment:</p>	<p>If a Corporate Transaction occurs before the repayment or conversion of the Notes into Conversion Shares, the Company will pay at the closing of the Corporate Transaction to each Purchaser that elects not to convert its Notes in connection with such Corporate Transaction an amount equal to any unpaid accrued interest under such Purchaser’s Notes <u>plus</u> two times (2x) the outstanding principal amount of such Purchaser’s Notes (a “Corporate Transaction Payment”).</p> <p>“Corporate Transaction” means (a) a sale by the Company of all or substantially all of its assets, (b) a merger of the Company with or into another entity (if after such merger the holders of a majority of the Company’s voting securities immediately prior to the transaction do not hold a majority of the voting securities of the successor entity) or (c) the transfer of more than 50% of the Company’s voting securities to a person or group.</p>
<p>Prepayment:</p>	<p>Except with respect to a Corporate Transaction Payment, the Company may not prepay the principal or accrued interest of the Notes unless approved in writing by the Requisite Noteholders.</p>
<p>Security Interest:</p>	<p>The Notes will be general unsecured obligations of the Company.</p>
<p>Events of Default:</p>	<p>The occurrence of any of the following shall constitute an “Event of Default” under this Note:</p> <p>(a) The Company shall fail to pay when due any principal or interest payment on the due date hereunder.</p> <p>(b) The Company undergoes a voluntary or involuntary bankruptcy or insolvency proceeding.</p> <p>(c) The Company materially breaches any representation, warranty and/or covenant in any Series Note, and does not cure such breach within fifteen (15) days after receipt of notice of such breach.</p> <p>Upon the occurrence of any Event of Default, immediately and without notice, (a) all outstanding obligations payable by the Company shall automatically become immediately due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding; and (ii) interest shall continue to accrue at the Default Rate.</p>

<p>“MFN” Amendment Provision:</p>	<p>If the Company issues any Subsequent Convertible Securities while this Note remains outstanding, the Company will promptly provide the Holder with written notice thereof, together with a copy of all documentation relating to such Subsequent Convertible Securities and, upon written request of the holder, any additional information related to such Subsequent Convertible Securities as may be reasonably requested by the Holder. In the event the Requisite Noteholders determine that the terms of the Subsequent Convertible Securities are preferable to the terms of this instrument, the Requisite Noteholders will notify the Company in writing. Promptly after receipt of such written notice from the Requisite Noteholders, the Company and the Holder agree to amend and restate this instrument to be identical to the instrument(s) evidencing the Subsequent Convertible Securities. “Subsequent Convertible Securities” means convertible securities that the Company may issue after the issuance of this instrument with the principal purpose of raising capital, including but not limited to, SAFEs, convertible debt instruments and other convertible securities. Subsequent Convertible Securities excludes: (i) options issued pursuant to any equity incentive or similar plan of the Company; (ii) convertible securities issued or issuable to (A) banks, equipment lessors, financial institutions or other persons engaged in the business of making loans pursuant to a debt financing or commercial leasing or (B) suppliers or third party service providers in connection with the provision of goods or services pursuant to transactions; and (iii) convertible securities issued or issuable in connection with sponsored research, collaboration, technology license, development, OEM, marketing or other similar agreements or strategic partnerships.</p>
<p>Restrictions:</p>	<p>The Company shall not take any of the following actions while any Series Note is outstanding, without the prior written consent of the Requisite Noteholders: (a) pay any dividends on outstanding shares of capital stock of the Company; (b) incur aggregate indebtedness exceeding \$100,000; (c) change the principal business of the Company, enter new lines of business, or exit the current line of business; or (d) otherwise enter into or be a party to any transaction with any director, officer, employee or consultant of the Company, except for transactions resulting in payments to or by the Company in an aggregate amount less than \$80,000 per year.</p>
<p>Amendment:</p>	<p>The Note Purchase Agreement and the Notes may be amended or waived by the Company and the holders of a majority-in-interest of the Notes (the “Requisite Noteholders”).</p>
<p>Investors:</p>	<p>The Financing is only open to “accredited investors” (as defined by the SEC).</p>