

THIS TERM SHEET PROVIDES AN EXAMPLE OF A TYPICAL "ANGEL" ROUND INVESTMENT IN PREFERRED STOCK. IT IS NOT INTENDED AS SPECIFIC LEGAL ADVICE OR A FINAL LEGAL DOCUMENT AND IS PROVIDED FOR GENERAL INFORMATIONAL PURPOSES ONLY. IGNITION POINT CAPITAL GROUP, LLC DOES NOT PROVIDE LEGAL OR INVESTMENT ADVICE AND ANYONE PARTICIPATING IN A FINANCING TRANSACTION SHOULD OBTAIN HIS OR HER OWN LEGAL AND INVESTMENT COUNSEL.



SAMPLE TERM SHEET
SERIES A PREFERRED STOCK FINANCING
OF

_____, 20__

This Term Sheet summarizes the principal terms under which accredited investors (the "Investors") associated with Ignition Point Capital Group, LLC ("Ignition Point") will purchase, and _____, a _____ corporation (the "Company"), will sell shares of its Series A Convertible Participating Preferred Stock (the "Series A Preferred Stock") pursuant to the terms set forth in this Term Sheet (the "Financing").

Notwithstanding any provision in this Term Sheet to the contrary, no provision of this Term Sheet constitutes a commitment or binding agreement on the part of the Investors or the Company with the exception of the sections set forth under the heading "Legally Binding Provisions," which are binding upon the Company and the Investors, as the case may be. Neither any of the Investors nor the Company has any obligation whatsoever to close or participate in the Financing except to the extent agreed to in definitive and final documents relating to the Series A Preferred Stock and the other matters described in this Term Sheet (the "Final Documents").

The principal terms of the Financing are as follows:

PRE-FINANCING CAPITALIZATION

Common: The Company has issued _____ shares of its common stock (the "Common Stock") of which _____ shares are owned by the Company's founders, _____ and _____ (the "Founders").

Warrants: The Company has issued ___-year warrants to purchase an aggregate of _____ shares of Common Stock for an exercise price of \$___ per share (the "Warrants").

Options: The Company has issued ___-year options to officers, directors, employees and consultants to purchase an aggregate of _____ shares of Common Stock for an exercise price of \$___ per share (the "Options").

Loans: The following loans are outstanding:

- (a) _____
- (b) _____

FINANCING TERMS

Investors: The Investors, all of which are accredited investors as defined in Rule 501 of Regulation D promulgated by the U.S. Securities and Exchange Commission, will invest through a limited liability company that they will establish for this purpose (the "Investor LLC").

Company: _____, a _____ "C" corporation (the "Company").

Size of Offering: \$_____.

Minimum to Close: \$_____.

Securities to Be Issued: Series A Convertible Participating Preferred Stock (the "Series A Preferred Stock").

Pre-Financing Valuation: \$_____.

Purchase Price: \$____ per share (the "Original Series A Purchase Price").

Use of Proceeds: The use of proceeds will be restricted to the uses set forth in the Company's budget, a current copy of which will be delivered to and approved by the Investors prior to Closing. All outstanding stockholder debt and deferred compensation will be converted into equity prior to closing and will be considered paid-in capital.

Closing: Targeted for _____, 20__ (the "Closing Date").

Closing Conditions: The following conditions to the Closing must be satisfied prior to the Closing Date:

- (a) completion of financial and legal due diligence to the satisfaction of the Investors;
- (b) the filing of an amendment to the Company's Certificate of Incorporation reflecting the rights and preferences of the Series A Preferred Stock as set forth in this Term Sheet;
- (c) qualification of the issuance of the Series A Preferred Stock under applicable "Blue Sky" laws;
- (d) completion of an Investors' Rights Agreement, Right of First Refusal and Co-sale Agreement, Voting Agreement and other customary agreements, in each case in a form acceptable to the Investors; and
- (e) no material adverse change in the Company's business prospects has occurred prior to the Closing Date.

Capitalization: Assuming that \$_____ is invested by the Investor LLC, all Warrants and Options are exercised, and all Common Stock in the "Incentive Pool" (as defined in "Incentive Pool" below) are issued, the fully-diluted capitalization of the Company Pre and Post-Financing will be as follows:

Security	Pre-Financing		Post-Financing	
	# of Shares	% Fully Diluted	# of Shares	% Fully Diluted
Common Stock				
Options Granted				
Warrants Granted				
Unallocated Incentive Pool				
Series A Preferred				
Total				

Subscription Agreement:

The investment will be made pursuant to a Subscription Agreement between the Company and the Investor LLC reasonably acceptable to the Company and the Investors, which agreement will contain, among others, things, appropriate representations and warranties of the Company, representations of the Founders with respect to patents, litigation, previous employment and outside activities, covenants of the Company reflecting the provisions set forth herein, and appropriate conditions of closing, including those set forth above.

TERMS OF SERIES A PREFERRED STOCK

Preferred Stock:
Ranking:

The Series A Preferred Stock ranks senior to all other classes of stock of the Company as to liquidation, dividends, redemptions and any other payment or distribution with respect to capital stock.

Dividends:

The holders of the Series A Preferred Stock are entitled to cumulative dividends (the "Series A Dividend"), accruing from the date of issuance, in preference to and pro rata with any dividends or distributions on any other securities of the Company at an annual rate of ___% of the Original Series A Purchase Price. In addition to the above dividends, the holders the Series A Preferred Stock will receive (on an as-converted basis) a dividend equal to any dividend paid on the Common Stock.

Liquidation:

In the event of any liquidation or winding up of the Company, the holders of the Series A Preferred Stock are entitled to receive, in preference to the holders of the Common Stock, a per share amount equal to the Series A Original Purchase Price (plus any accrued but unpaid dividends) in preference to the holders of Common Stock (the "Series A Liquidation Preference"). Any assets remaining after payment of the Series A Liquidation Preference will be distributed among the holders of the shares of the Series A Preferred Stock and Common Stock pro rata based on the number of shares held by each such holder, treating for this purpose all such securities as if they had been converted to Common Stock.

A consolidation or merger of the Company, a sale of substantially all of its assets, or any transaction in which control of not less than 50% of the outstanding voting securities of the Company is transferred to unaffiliated third parties who are not then shareholders of the Company will be deemed to be a liquidation or winding up for the purposes of the liquidation preference and is referred to herein as a "Liquidation Event."

Optional Conversion:

Any holder of Series A Preferred Stock will have the right to convert any or all shares of its Series A Preferred Stock, at any time at his or her option, into shares of Common Stock. One share of Series A Preferred Stock is initially convertible into one share of Common Stock based on a conversion price equal to the Original Series A Purchase Price (the "Conversion Price"). The Conversion Price may be adjusted based on certain events (see "Anti-dilution Provisions" below).

Automatic Conversions:

Series A Preferred Stock will be automatically converted into Common Stock at the then applicable conversion rate (a) upon the closing of an underwritten public offering of shares of the Company in which (i) the aggregate cash proceeds to the Company equal or exceed \$__ million, net of underwriters' commissions and expenses, and (ii) the price per share is not less than _ times the Original Purchase Price, or (b) at any time upon the written approval of the holders of at least 2/3rds of the outstanding Series A Preferred Stock ("Series A Approval").

Anti-dilution
Provisions:

Unless the Company receives a Series A Approval to the contrary, the Conversion Price of the Series A Preferred Stock will be subject to a "full ratchet" adjustment in the event of a Dilutive Issuance any time after the Closing Date. As a result, the then effective Conversion Price will be reduced to the price paid for such newly issued shares. "Dilutive Issuance" means any issuance of capital stock at an effective or deemed per-share purchase price that is less than the Original Series A Purchase Price, but does not include:

- (a) the sale or issuance of Common Stock or Common Stock equivalents pursuant to the Incentive Pool;
- (b) the issuance of shares of Common Stock or Common Stock equivalents to third parties in conjunction with technology licenses, strategic alliances, acquisitions, equipment leases, or other commercial financing transactions if and to the extent that the transaction in which such issuance is to be made is approved by the Board of Directors, including the Series A Director, and is for purposes other than equity financing;
- (c) shares of Common Stock or Common Stock equivalents issued in connection with a strategic corporate partnership or joint venture with a non-affiliate if and to the extent that the transaction in which such issuance is to be made is approved by the Board of Directors, including the Series A Director, and is for purposes other than equity financing;
- (d) Common Stock issued upon conversion of the Series A Preferred Stock or as a dividend on the Series A Preferred Stock; or
- (e) Common Stock issued in the initial public offering ("IPO").

In addition, the Conversion Price of the Preferred Stock will be adjusted for any stock splits, stock dividends, reorganizations, recapitalizations and similar events.

Voting Rights:

Except as otherwise required by law or by the "Protective Provisions" below, the Series A Preferred Stock will vote together with the Common Stock. Each share of Series A Preferred Stock will carry a number of votes equal to the number of shares of Common Stock then issuable upon its conversion.

Board of Directors:

The Board of Directors (the "Board") will be comprised of one representative nominated by the holders of Common Stock, one representative nominated by the holders of Series A Preferred Stock (the "Series A Director"), and one representative unaffiliated with the Company and the Investors (the "Outside Director"). The Investor LLC will be entitled to designate the Series A Director for so long as it holds any Series A Preferred Stock. Each committee of the Board of Directors will include the Series A Director and the Outside Director. The Company will reimburse non-employee directors for all reasonable expenses incurred in their services as a director of the Company. The Company will indemnify members of the Board of Directors to the fullest extent possible. Immediately upon the Closing, the Company will undertake to obtain Directors and Officers insurance in a standard amount.

For so long as any member of Ignition Point is either an Investor or a member of the Investor LLC, a designee of Ignition Point will be entitled to attend and observe all Board meetings and to receive all materials and communications distributed to the Board, subject to customary exceptions.

Right of First Refusal;
Co-Sale:

Until an IPO, the holders of the Series A Preferred Stock will have the right to participate on a pro rata basis in transfers of any shares of Common Stock, and a standard right of first refusal on such transfers. Any shares not subscribed for by any holder of Series A Preferred Stock may be reallocated among the other eligible holders of Series A Preferred Stock.

Right to Force a Sale of the Company:

The Company must agree to any Liquidation Event transaction and all major shareholders must likewise agree to such transaction upon the approval of (a) the holders of at least 2/3rds of the Series A Preferred Stock, (b) a majority of the Board, and (c) a majority of all Common Stock and outstanding Series A Preferred Stock, voting as a single class on an as-converted basis.

Preemptive Right:

In the event the Company proposes to offer equity securities to any person, holders of Series A Preferred Stock will have the pro rata right, based on their percentage equity ownership of Common Stock, calculated on a fully diluted basis (as converted), to participate in subsequent equity financings of the Company, subject to customary exclusions, including equity securities issued:

- (a) upon conversion of any Series A Preferred Stock;
- (b) to the Company's employees, officers, directors or consultants pursuant to stock options;
- (c) as a dividend distribution on any Series A Preferred Stock;
- (d) to third parties in connection with technology licenses, strategic alliances, acquisitions, equipment leases, or other commercial financing transactions (not to exceed 2.5% of the Company's Common Stock calculated on a fully diluted basis in any 12-month period without the permission of the Board of Directors including the Series A Director); or
- (e) to third parties in connection with a strategic corporate partnership or joint venture with a non-affiliate (not to exceed 2.5% of the Company's Common Stock calculated on a fully diluted basis in any 12-month period without the permission of the Board of Directors including the Series A Director).

Any shares not subscribed for by a holder of Series A Preferred Stock may be reallocated among the other eligible holders of Series A Preferred Stock.

Redemption Rights:

Any shares of the Series A Preferred Stock will be redeemed, at the request of the holders of at least 2/3rds of the Series A Preferred Stock, at any time after five years from the Closing at a redemption price that is the greater of the fair market value (with no discount for minority interest or illiquidity) or the Series A Liquidation Preference. To the extent that the Company's available cash flow does not permit a full redemption, the remainder shall be paid in the form of a one-year promissory note to each unredeemed holder of Series A Preferred bearing interest at a rate of 10% per annum, and the holders of a majority of Series A Preferred shall be entitled to elect a majority of the Company's Board of Directors until all principal and interest owing under such notes are paid in full.

Information Rights:

So long as any of the Series A Preferred Stock is outstanding, the Company will deliver to each Investor audited annual and unaudited quarterly financial statements, annual budgets and other information set forth in the Investors' Rights Agreement.

PROTECTIVE PROVISIONS

Series A Approval Items:

So long as at least 50% of the Series A Preferred Stock remains outstanding, Series A Approval will be required for the Company to:

- (a) enter into any acquisition of, or any agreement to acquire, any entity, business or business segment;
- (b) enter into any transaction or agreement that would result in a Liquidation Event;
- (c) declare or pay any dividend or make any distribution with respect to the Company's capital stock;
- (d) redeem or repurchase any Company capital stock (other than any employee stock repurchases pursuant to vesting or employee agreements approved by the Board of Directors including the Series A Director);

- (e) amend the Company's Certificate of Incorporation or Bylaws in a manner that results in an adverse change to the rights, preferences, or privileges of the Series A Preferred Stock;
- (f) increase the authorized number of shares of Series A Preferred Stock or Common Stock;
- (g) sell any security at a common-equivalent price less than that paid for the Series A Preferred Stock, other than shares in the Incentive Pool or shares issued in acquisitions or in connection with debt financings;
- (h) increase or decrease the size of the Board;
- (i) permit any subsidiary or affiliate of the Company to sell or issue any stock to any party other than the Company; or
- (j) increase the size of the Incentive Pool.

Series A Director
Approval Items:

So long as any of the Series A Preferred Stock remains outstanding, approval of the Board, including the Series A Director, will be required for the Company to:

- (a) incur or guarantee indebtedness greater than \$_____ at any time or create or permit to exist any lien or encumbrance or grant any security interest in the assets, business or properties of the Company other than in the ordinary course of the Company's business;
- (b) make any capital expenditure in excess of \$_____ beyond that approved in the annual capital budget approved by the Board of Directors;
- (c) appoint the Chief Executive Officer or other executive officers or setting or changing any such officer's compensation;
- (d) enter into any joint venture or exclusive licensing, marketing or distribution agreement with respect to the Company's products other than in the ordinary course of business;
- (e) make a material change in the Company's line(s) of business, change the principal business of the Company, enter new lines of business, or exit the current line of business; or
- (f) permit any subsidiary or affiliate of the Company to engage in transactions that materially affect the Company's position as regards any of the foregoing list of proscribed actions; or
- (g) begin or settle any litigation.

Board Approval
Items:

The approval of the Board will be required for:

- (a) all stock option programs as well as issuance of all stock and stock options (approval by a majority of disinterested Directors or a Compensation Committee when established);
- (b) annual budgets, business plans, and financial plans, including those involving employee and officer compensation and hiring arrangements;
- (c) all real estate leases or purchases;
- (d) creating or selling any class of equity or security convertible into any class of equity (other than options and warrants for previously authorized equity); or
- (e) execution of obligations or commitments, including capital equipment leases or purchases, with total value greater than \$_____ and that are outside the most recent business plan or budget approved by the Board of Directors.

Events of
Noncompliance:

An event of non-compliance will occur if (a) the Company breaches in any material respect any of its material covenants or obligations to the holders of the Series A Preferred Stock and fails to cure such breach after notice and a reasonable opportunity to cure, or (b) the Company incurs a bankruptcy, receivership, assignment for the benefit of creditors or any unsatisfied judgment in a material amount. If any event of non-compliance occurs and continues for 30 days, and until such event of non-compliance is cured, the holders of a majority of the Series A Preferred Stock will have the right to elect a majority of the Company's Board of

Directors. The foregoing remedy is not exclusive, and all other legal remedies may be pursued by such shareholders upon the occurrence of an event of non-compliance.

REGISTRATION RIGHTS

Company

Registration: The holders of Series A Preferred Stock, including Common Stock issued upon conversion of Series A Preferred Stock (“Registrable Securities”) are entitled to unlimited “piggy-back” registration rights on registrations of the Company, with standard underwriter cutback for any such offering. If the holders of the Registrable Securities are so limited, however, no party may sell shares in such registration other than the Company or the holders of the Registrable Securities, if any, invoking the demand registration. The foregoing rights are subject to the right of the Company and its underwriters, in view of market conditions, to reduce the number of shares proposed to be registered. Piggyback registration rights will expire five years after the IPO.

Demand Rights: Beginning on the earlier of five years from the Closing or six months after the Company’s IPO, if holders of at least 50% of the Registrable Securities request that the Company file a registration statement covering shares having an aggregate offering price to the public in excess of \$5,000,000, the Company will use its reasonable best efforts to cause such shares to be registered; provided, however, that the Company will not be obligated to effect more than two such demand registrations. The Company has the right to delay such registration under certain circumstances for two periods not in excess of 90 days in the aggregate in any 12-month period.

S-3 Registration: The holders of Registrable Securities will have the right to request unlimited demand registrations on Form S-3, exercisable at any time the Company is eligible to use such form or its successor; provided the Company will not be obligated to file more than one such registration statement during any 6-month period and each registration on Form S-3 has a minimum market value of at least \$1,000,000 or is within 180 days of the effective date of a prior registration statement.

Registration

Expenses: Reasonable registration expenses (exclusive of underwriting discounts and commissions, but inclusive of fees and expenses of one special counsel for the selling holders) of demand registrations, S-3s and all piggybacks will be borne by the Company.

Market Stand-Off: If requested by the managing underwriter of the Company’s IPO, all members of the Company will agree that in connection with the IPO not to sell any shares of Common Stock (other than Common Stock acquired in or after the IPO) for a period of up to 180 days following the IPO provided (a) directors and officers of the Company and 5% members agree to the same lock-up and (b) such agreement provides that any discretionary waiver or termination of the restrictions of such agreements by the Company or representatives of the underwriters will apply to all persons subject to such agreement pro rata based on the number of shares held. Such members also will agree to sign the underwriter’s standard lock-up agreement reflecting the foregoing.

Other Provisions: Other provisions with respect to registration rights as are reasonable, including cross indemnification, the period of time in which a registration statement will be kept effective, underwriting arrangements, and a prohibition on granting registration rights to others without Series A Approval. Registration rights will terminate five years after the IPO or, if earlier, terminate as to a holder of Registrable Securities upon such holder’s qualifying under Rule 144(k).

EMPLOYEE MATTERS

- Employee Agreements: The Founders and all employees and consultants have entered into, or will enter into, the Company's standard form inventions and proprietary information agreement in form and substance acceptable to the Investors.
- Incentive Pool: As of the Closing Date, approximately ___% of the total outstanding capital stock on a fully-diluted basis after giving effect to the Financing will be reserved for future issuance to the Company's officers, directors, employees and consultants pursuant to arrangements, contracts or plans approved by the Board of Directors (the "Incentive Pool"). Each Founder may also be entitled to participate in any such plan and receive incentive stock options or other awards to the extent he is a full time employee of the Company and as approved by the Board of Directors, including the Series A Director. All options issued under the Incentive Pool will be issued at an exercise price not less than fair market value and vest quarterly according to a four-year schedule with a one-year cliff.
- Founders' Stock: The Founders will own their respective shares outright, subject to the Company's right to buyback at cost. The Company's buyback right will apply to ___% of the Founders' shares, with such right lapsing as applied to such portion in equal increments each month for a period of 36 months from the Closing. Notwithstanding the foregoing, such buy back right may be triggered only in the event that the Founder with respect to whom such rights would be exercised has left the employ of the Company voluntarily and unilaterally or has been fired by the Company for cause.
- Key-Man Insurance: As soon as reasonably possible after the Closing, the Company will procure a key-man life insurance policy for the Founders in the amount of \$_____, naming the Company as beneficiary; provided, however, that at the election of the holders of a majority of the outstanding Series A Preferred Stock, such proceeds will be used to redeem shares of Series A Preferred Stock.

LEGALLY BINDING PROVISIONS

In consideration of the Company's and the Investors' (a) execution and delivery of this Term Sheet, (b) negotiation and preparation of the Final Documents, and (c) retention of legal counsel, accountants and advisors to assist in connection therewith, the Company and the Investors (collectively referred to as the "Parties" and individually as a "Party") agree to be legally bound as follows:

- Exclusivity: The Company and Investors agree to work expeditiously and in good faith towards a Closing. For ___ days from the date this Term Sheet is accepted by the Company, the Company and the Founders agree that they will not take any action to solicit, initiate, encourage, or assist in the submission of any proposal, negotiation or offer from any person or entity other than the Investors relating to (a) the sale or issuance of any convertible note or capital stock of the Company or (b) the acquisition, sale, lease, license or other disposition of the Company's stock or assets. The Company must notify the Investors promptly of any inquiries by any third parties in regards to the foregoing.
- Confidentiality: This Term Sheet is confidential to the parties and is for the use of the Company's management and their advisors. Accordingly, the information contained in this document may not be disclosed to any third party or used to facilitate negotiations with any third party without prior written consent of the Investors.
- Expenses: The Company will bear its own fees and expenses of the Financing and must reimburse the Investors for all reasonable out-of-pocket expenses up to \$_____ (including fees and disbursements of one legal counsel). Immediately upon execution of this Term Sheet, the Company will wire transfer a non-refundable

deposit of \$_____ (the "Expense Deposit") as instructed by the Investors. If the Financing is consummated, the Expense Deposit will be applied against the Expenses owed by the Company at the Closing of the Financing.

Document
Preparation:

The Final Documents will be drafted by counsel for the Investors.

Termination of
Offer:

This Term Sheet must be accepted by the Company and the Founders through their execution of it at the spaces provided below and their returning it by email, facsimile, or overnight courier by the end of business on _____, 20__, to _____ at the following address:

Governing Law:

This Term Sheet and all amendments, modifications or supplements to it, shall be construed under, and be governed by, the laws of the State of Florida, without regard to conflicts of law provisions therein. Any action brought to enforce this Term Sheet shall be brought in Broward County, Florida.

On Behalf of the Company:

Company Name

Authorized Signatory

Name

Date

On Behalf of the Investors:

Investor Name

Authorized Signatory

Name

Date