TERMS FOR PRIVATE PLACEMENT OF SERIES SEED PREFERRED STOCK OF

[*Insert company name*],

The following is a summary of the principal terms with respect to the proposed Series Seed Preferred Stock financing of [\_\_\_\_\_\_\_\_\_\_\_], incorporated in [\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_] (the “***Company***”). Except for the section entitled “Binding Terms,” this summary of terms does not constitute a legally binding obligation. The parties intend to enter into a legally binding obligation only pursuant to definitive agreements to be negotiated and executed by the parties.

Offering Terms

Securities to Issue: Shares of Series Seed Preferred Stock of the Company (the “Series Seed”)

[ *In exchange for the financial investment, the investors under this term sheet are purchasing shares of the company. The type of shares being offered are Preferred Stock, which gets preference over Common Stock in an event of liquidation or when a company is ending operations. The Preferred Stock owners by virtue of being higher in priority will be paid back before the Common Stock owners. The Preferred Stock owners however, will only get back the amount invested and hence have limited upside. There is a clause for conversion later in the Term sheet]*

Aggregate Proceeds: $[\_\_\_\_\_\_\_\_\_] in aggregate.

[*This is the total amount the Company is raising in the particular round. Sometimes investors will put in a clause which will require that the Company has received a minimum commitment from other Investors to ensure that the objectives of fundraising can be met before they fund their commitment*]

Amounts: $ [\_\_\_] Million from [\_\_\_\_\_\_\_] (“**Lead Investor**”)

$[\_\_\_] Million from [\_\_\_\_\_\_\_] (“**Investor 1**”)

[*This sets out the names and identities of the investors who are signing the term sheet and committing the amounts to invest in the company. Sometimes it will happen that while other investors may also participate in the round, the lead investor maybe granted additional rights*]

Price Per Share: $[\_\_] (“the Original Issue Price”), based on a pre-money valuation of $[\_\_\_]

Million based on the Capitalization of the Company as set forth in Exhibit A

Inclusive of an available post-closing option pool of [\_\_]% after receipt of

Aggregate Proceeds.

[*The Price the investors will pay for each share of Preferred Stock is calculated on the basis of other clauses in the Term Sheet as well as the number of shares the company has/will authorize. The price is usually filled in last. An important point in the Seed Term sheet is the Pre-Money Valuation. This is the amount that the Founders and Investors agree on that the company is worth at the time of signing of the Term Sheet and before the money is received.*

*Exhibit A is the Capitalization Table showing in names and numbers who owns how many shares in the company before and after investment.*

*The option pool that is referred to means that the investors and the owners of the company agree to set aside extra shares of the Common Stock that will be used to attract and compensate early talent. This is known as the “unallocated, post-closing, option pool”. Please note that the 15% of the option pool will exist AFTER the investment, but the calculation will be done BEFORE the investment is made. This means that the shares of the option pool will come out of the Founders Shares and nApprot the investors.*

*Here is an example: A founder owns 100% of a company. Investors put in $250,000 in exchange for 25% ownership. That means the “post money” valuation of the company is $1 million, and the “pre-money” valuation (after subtracting out the $250,000) is $750,000. However, if the term sheet indicates, there needs to be a pool of 15% of the stock available for employee options. This means the post-closing Cap Table shown in Exhibit A will show 25% for the investors, 15% for the option pool, and 60% for the Founder*]

Dividends: Annual 6% non-cumulative, payable if and when declared by the Board of

Directors

[*A dividend on a preferred stock is like an interest rate. In this case the investors are entitled to 5% of the dividend each year on their investment, but dependent on when and if the BOD decided to declare a dividend. Since a growing company will always need cash, it is highly unlikely that a dividend will be declared in the early years*]

Conversion: Convertible to one share of Common at any time at the option of the holder or

approval of a majority of Preferred Stock (on an-as converted basis)

(“the **Preferred Majority**”) subject to standard adjustments

[*The preferred stock owners can convert to common stock so realize the upside benefits. The Preferred Stock of all owners will convert to Common Stock if the majority of the owners decide to convert. Common stock gets the proportional share of any incoming money, but has a lower priority of payment proceeds as compared to the Preferred Stock. In a bad scenario, the Preferred Stock owners can choose to stay and in a good scenario they can convert to Common Stock*]

Voting Rights: Approval of a majority of the Series Seed required to (i) adversely change rights

of the Series Seed; (ii) change the authorized number of shares; (iii) authorize a

new series of Preferred Stock having rights senior to or on parity with Series

Seed; (iv) redeem or purchase any shared other than pursuant to Company’s

Right of repurchase at Original Cost; (v) create or authorize any debt security if

the Company’s aggregate indebtedness exceeds 50% of the aggregate proceeds

of Series Seed; (vi) declare or pay any dividend; (vii) change authorized number

of Directors; or (viii) liquidate or dissolve, including a Company Sale. Votes

together with the Common Stock in all matters on an as-converted basis.

[*This is where the most protective provisions of investors are found. This means that even though investors hold Preferred stock, when voting they will be treated as Common Stock holders*]

Drag Along: Founders, Investors and 1% stockholders required to vote for a Company Sale

approved by (i) The Board; (ii) the Preferred Majority; (iii) a majority of

Common Stock (excluding shares of Common Stock issuable or issued upon

Conversion of the Preferred Stock) (“the **Common Majority**”)

[*This clause enables the majority of the shareholders to force a minority shareholder to join in a sale of the company. The minority shareholders will have the same price, terms and conditions as the other shareholders.]*

Financial Information: All investors will receive financial statements and or narrative update reports

from the management.

Participation Right: Investors will have the right to participate on a pro-rata basis in subsequent

issuances of equity securities

[*This gives the investors the right but not the obligation to participate in future rounds of fundraising on the same terms as new investors, at least up to an amount that will enable them to maintain the same percentage ownership after the new investment has been made as before*]

Board of Directors: [Lead Investor designates one Director, Common Majority designates 2]

[*The BOD of a company is in charge of making all major decisions, including hiring/firing of CEO, major*

*operations and overall strategy of the Company. It is up to the Company and the Investors to decide the BOD composition. Please note BOD should be helping to drive the company forward*]

Founder and Employee: [Founders: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_]

Vesting [Employees: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_]

[*The most common here is a 4-year monthly vesting with a 1-year cliff. The investors would also want a vesting period along with a cliff for the founders. The founder’s cliff maybe more than 1 year. A cliff is a period during which if the employee or a founder was to leave the company, they would walk away with no shares*]

No Shop: For [\_\_] days the Company will not solicit, encourage or accept any offers from

any person or entity other than the Investors.

[*The idea behind this is that the investors do not want to be used as a “Straw Man” for the purpose of helping the company get a better deal from somewhere else*.]

Special Terms: [Deal Specific]

| On Behalf of the Company | On Behalf of the Investors |
| --- | --- |
| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| Co-Founder, CEO | [Managing Partner] |
|  |  |
| Witnesses | Witnesses |
| 1. \_\_\_\_\_\_\_\_\_\_\_\_\_ | 1. \_\_\_\_\_\_\_\_\_\_\_\_\_ |
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