**SAMPLE TERM SHEET**
**FOR PRIVATE PLACEMENT OF**
**SERIES A PREFERRED STOCK OF**
**Newco, Inc.**

**October, 200X**

This term sheet summarizes the principal terms of the Series A-round financing of Newco, Inc.

## OFFERING TERMS

Issuer: Newco, Inc., a Delaware corporation (the "Company").

Securities to be Issued: 1,200,000 shares of Series A Preferred Stock (the "Preferred Stock").

Aggregate Proceeds: $600,000

Price: $0.50 per share.

Pre-money valuation: $1.0 million

Expected Closing Date: October ___, 200X

Investors:

| Investor | Amount (US$) |
|---|---|
| Venture Firm 1 | $450,000 |
| Others | $150,000 |
| TOTAL | $600,000 |

## TERMS OF SERIES A PREFERRED STOCK

Dividends: Annual $0.04 per share dividend, payable when and if declared by Board; dividends are not cumulative. For any other dividends or distributions, Preferred Stock participates with Common Stock on an as-converted basis.

Liquidation Preference: In the event of any liquidation or winding up of the Company, the holders of the Preferred Stock shall be entitled to receive, prior to any payments to the holders of Common Stock, an amount equal to $0.50 plus any declared but unpaid dividends on such shares.

After the payment of such initial preferential amounts on the Preferred Stock, the balance of the proceeds shall be shared pro rata among the holders of the Preferred Stock and Common Stock until the holders of the Preferred Stock have received an amount equal to 1.0 times their cost. All remaining proceeds will be distributed pro rata to the holders of the Common Stock.

A merger, reorganization or other transaction in which control of the Company is transferred will be treated as if a liquidation.

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| Redemption: | The Preferred Stock will not be redeemable. |
| Conversion: | Convertible into one share of Common Stock (subject to anti-dilution adjustment) at any time at the option of the holder. Automatically converts into Common Stock upon (i) consummation of an underwritten public offering with a price per share of $5.00 and aggregate proceeds in excess of $10,000,000, or (ii) the date specified by written consent or agreement of the holders of at least 50% of the then outstanding shares of Series A Preferred Stock. |
| Anti-dilution Adjustments: | Conversion ratio adjusted on broad-based weighted average basis in the event of an issuance below Series A price. No adjustment shall be made for the sale of Common Stock to employees, directors or consultants. Proportional adjustments will be made for stock splits and stock dividends. |
| Voting Rights: | Votes on an as-converted basis, but also has class vote as provided by law and on (i) the creation of any senior or pari passu security, (ii) payment of dividends on Common Stock, (iii) repurchase of Common Stock except upon termination of employment, (iv) any transaction in which control of the Company is transferred, (v) an increase in the number of authorized shares of Series A Preferred, and (vi) any adverse change to the rights, preferences and privileges of the Series A Preferred. |

## TERMS OF PREFERRED STOCK PURCHASE AGREEMENT

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| Representations and Warranties: | Standard representations and warranties by the Company. |
| Assignment of Inventions and Confidentiality Agreement: | All employees and consultants shall enter into company's standard form inventions and proprietary information agreement. |

## TERMS OF INVESTOR RIGHTS AGREEMENT

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| Registration Rights: | (a) Beginning earlier of 5 years from Closing, or 6 months after initial registration, 2 demand registrations upon initiation by holders of at least 30% of outstanding Preferred Stock for aggregate proceeds in excess of $10,000,000. Expenses paid by Company.<br><br>(b) Unlimited piggyback registration rights subject to pro rata cutback at the underwriter's discretion. Expenses paid by Company.<br><br>(c) Unlimited S-3 Registrations of at least $1,000,000 each, upon initiation by holders of 51% of the Preferred. Expenses paid by Company. |

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| | Registration rights terminate (i) 5 years after initial public offering or (ii) when all shares can be sold under Rule 144, whichever occurs first.<br><br>No future registration rights may be granted without consent of a majority of Investors unless subordinate to Investors' rights. |
| Right of First Refusal: | Major Investors shall have a pro rata right, based on their percentage equity ownership of Common Stock, on a fully-diluted basis, to participate in subsequent equity financings of the Company (subject to customary exclusions). |
| Financial Information: | The Investors shall receive standard information rights including financial reports and, subject to minimum holdings requirements, quarterly un-audited financial reports, monthly un-audited financial reports and annual budget and business plan, as well as standard inspection rights. |
| Board of Directors: | Board shall consist of 5 members. Board composition at Closing shall be Chief Executive Officer, one Vice President, two seats for investors, and one other party acceptable to all board members. |

## OTHER MATTERS

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| Common Stock Vesting: | Common Stock shall vest as follows: After twelve months of employment, 25% will vest; the remainder will vest monthly over the following 36 months. Repurchase option on unvested shares at cost. One hundred percent acceleration of unvested shares or options upon a change-in-control event. |
| Restrictions on Common Stock Transfers: | (a) No transfers allowed prior to vesting.<br><br>(b) Right of first refusal on vested shares of Common Stock until initial public offering.<br><br>(c) No transfers or sales permitted during lock-up period of up to 180 days required by underwriters in connection with stock offerings by the Company. |

## POST-CLOSING CAPITALIZATION

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| Series A Preferred Stock Outstanding: | 2,000,000 shares | 38.5 % |
| Founders Common Stock: | 1,200,000 shares | 23.1 % |
| Common Stock Reserved for Employees: | 2,000,000 shares | 38.5 % |
| TOTAL: | 5,200,000 shares | 100.0% |