

TERM SHEET
VARIABLE-BASED CONVERTIBLE DEBT FINANCING OF COMPANY

_____, 20XX

This Term Sheet is for discussion purposes only and there shall be no obligation on the part of any negotiating party until a definitive agreement and related documents are signed by all of the parties thereto. The transactions contemplated by this Term Sheet are subject to the satisfactory completion of due diligence, legal review, and final approval by the Company and the investors. This Term Sheet does not constitute either an offer to sell or an offer to purchase securities. This term sheet is governed by the laws of the State of Delaware.

- Issuer: COMPANY, a STATE AND ENTITY TYPE (the “Company”).
- Amount of Financing: Up to \$_____ in Convertible Promissory Notes (“Notes”), with a minimum investment per investor of \$25,000 in the Company’s discretion.
- Closings: The Company may sell Notes at one or more closings on or before _____, 20XX, up to an aggregate principal amount at all closings of the maximum amount specified above.
- Interest Rate Payments: The Notes will bear simple interest on the outstanding principal balance at the rate of [0.0]% per annum based on a 365-day year, paid quarterly.
- Principal Multiple: Each Note will contain a Purchase Amount equal to the invested amount. At the earlier of conversion, maturity, an event of default, or a change of control, the original Purchase Amount shall be multiplied by [X.X] (the “Principal Multiple”) and then reduced by the aggregate amount of any Variable Payments made to determine the “Final Amount.”
- Variable Payments: [PERCENT] of the aggregate [METRIC] for the prior quarter; *provided* that such amount may not be lower than one percent (X.0%) of the Purchase Amount. The Variable Payments the principal.
- Prepayment: The Notes may be prepaid at any time only upon the written consent of the holders of a majority of the outstanding principal amount under the Notes (the “Requisite Holders”).
- Automatic Conversion: In the event that the Company issues and sells shares of capital stock (“Qualified Financing Shares”) to investors in one or a series of bona-fide arms-length transactions for aggregate consideration (excluding the aggregate amount of securities converted into Qualified Financing Shares in connection with such sale (or series of related sales)) of at least \$[THRESHOLD] (a “Qualified Financing”), then the Final Amount shall convert into Qualified Financing

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Shares at a conversion price equal to the price per unit paid by the investors purchasing such Qualified Financing Shares in such Qualified Financing (the “Conversion Price”).

Maturity: If not previously converted or repaid, on the [MATURITY DATE] (the “Maturity Date”), the Variable Payment and Interest Rate Payments will be made until the Final Amount is achieved.

Amendment: The Notes may be amended in writing signed by the Company and the Requisite Holders. Any such amendment shall be binding upon each Noteholder.

Upon Sale: In the event of a consolidation, merger, change of control or a sale or other disposition of all or substantially all of the assets of the Company prior to the conversion or repayment of the Notes, the Company will pay each Noteholder an amount equal to the Final Amount.

Events of Default: Upon the occurrence of any Event of Default (as defined below), the Final Amount shall, at the option of the Requisite Holders, and, in the case of an Event of Default pursuant to (ii) below, automatically, be immediately due, payable and collectible by the holder pursuant to applicable law.

Each of the following events shall be an “Event of Default” for purposes hereof: (i) the Company files any petition or action for relief under any bankruptcy, reorganization, insolvency or moratorium law or any other law for the relief of, or relating to, debtors, now or hereafter in effect, or makes any assignment for the benefit of creditors or takes any corporate action in furtherance of any of the foregoing; and (ii) an involuntary petition is filed against the Company under any bankruptcy statute now or hereafter in effect, and such petition is not dismissed or discharged within 60 days, or a custodian, receiver, trustee, assignee for the benefit of creditors (or other similar officials) is appointed to take possession, custody or control of any property of the Company.

Conditions to Closing: The purchase of a Note by any investor will be subject to satisfaction of the following conditions:

- Completion of due diligence of the Company to the reasonable satisfaction of each investor;
- Preparation and execution of definitive transaction documents (a form of Convertible Promissory Note); and
- Compliance with applicable securities laws, including that the investor be an “accredited investor” and make customary securities representations and warranties.

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Confidentiality: The parties will not discuss the terms of this Term Sheet with any person other than attorneys, accountants or other advisors.

Expenses: Each party will bear its own expenses (including legal fees) in connection with the negotiation, preparation, and review of necessary documentation.

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