

**Form:** Summary of Principal Terms for a Private Placement Offering of Series A Preferred Stock (Angel Investors)

**Description:** This is a sample term sheet for a start-up company seeking capital from angel investors. This contemplates a Series A Preferred round of financing, but consider whether the stock to be issued should be Common Stock.

[Name of Company]

**Summary of Principal Terms  
for a Private Placement Offering of  
Series A Preferred Stock**

**Company:** \_\_\_\_\_, a \_\_\_\_\_ corporation (the "Company")

**Amount:** Approximately \$\_\_\_ to \$\_\_\_ of stock

**Type of Security:** Series A Convertible Preferred Stock (the "Preferred")

**Number of Shares:** \_\_\_\_\_ - \_\_\_\_\_ shares

**Price per Share:** \$\_\_\_ (the "Original Purchase Price"). The Original Purchase Price represents a pre-money valuation of \$\_\_\_ million of the Company based on outstanding shares.

**Prospective Investors:** Sophisticated angel and other investors (collectively referred to as the "Investors").

**Minimum Investment:** \$\_\_\_\_\_ (unless otherwise agreed to by the Company).

**Use of Proceeds:** For [describe purposes] and working capital purposes.

**Dividends:** The holders of the Preferred shall be entitled to receive out of legally available funds, dividends at a rate of 8% of the Original Purchase Price per annum, payable when, as and if declared by the Board of Directors. Dividends shall not be cumulative.

**Liquidation Preference:** In the event of any liquidation, dissolution or winding up of the Company, the holders of the Preferred shall be entitled to receive in preference to the Common Stock (the "Common") an amount payable in cash equal to the Original Purchase Price for the Preferred plus declared and unpaid dividends (the "Liquidation Preference"). A merger, reorganization or other acquisition type transaction in which control of the Company or all or substantially all of its assets is transferred will be treated by holders of the Preferred as a liquidation.

**Conversion:** The holders of the Preferred have the right, at any time, to convert into shares of Common. The number of shares of Common into which each share of

Preferred may be converted will be determined by dividing the Original Purchase Price by the conversion price. The initial conversion price will be equal to the Original Purchase Price. The conversion price will be subject to adjustment as set forth in "Antidilution Provisions."

**Automatic Conversion:**

In the event of: (1) an underwritten public offering of shares of the Company at a total offering of not less than \$\_\_\_\_ million; or (2) the consent of the holders of at least a majority of the then outstanding shares of Preferred, the Preferred will be automatically converted into Common at the then applicable conversion rate.

**Antidilution Provisions:**

Proportional adjustment for stock splits, stock dividends, recapitalizations, and the like. The conversion price will be adjusted on a weighted average basis for issuances of additional equity securities at a purchase price below the then effective conversion price (subject to exceptions set forth in the definitive documents).

**Voting Rights:**

The holders of a share of the Preferred will have a right to that number of votes equal to the number of shares of Common issuable upon conversion of the Preferred.

**Protective Provisions:**

The consent of a majority of the Preferred, voting as a single class, shall be required for the following actions: (i) any amendment or change to the rights, preferences, privileges or power of the Preferred that adversely affects the Preferred; (ii) any action that authorizes, creates or issues shares of any class of stock having rights, preferences or privileges superior to the Preferred; (iii) unless the holders of Preferred have received at least a [35%] annual return on their investment, any merger or consolidation of the Company with one or more other corporations in which the shareholders of the Company immediately after such merger or consolidation hold stock representing less than a majority of the voting power of the outstanding stock of the surviving corporation and any sale of all or substantially all of the assets of the Company; (iv) the payment of any dividend on the Common Stock and (v) liquidate or dissolve the Company.

**Representations and**

The Company will give customary representations

<b>Warranties:</b>	and warranties to the Investors in the definitive Stock Purchase Agreement.
<b>Information and Registration Rights:</b>	<p>The Investors shall receive standard information rights including quarterly and annual financial reports.</p> <p>The Investors shall receive standard inspection and visitation rights, so long as they hold at least a 5% interest in the Company. Such rights shall terminate upon the closing of an IPO. [Shareholders will have customary demand, piggyback and S-3 registration rights.]</p>
<b>Preemptive Rights:</b>	So long as an Investor owns at least a 5% interest in the Company, the Investor shall have a pro rata right, based on his percentage equity ownership, to participate in subsequent equity financings of the Company, subject to customary exclusions. Such right will terminate upon the closing of an IPO.
<b>Expenses:</b>	Each party will bear their own expenses for matters arising under the definitive Stock Purchase Agreement.
<b>Board of Directors:</b>	Holders of the Preferred shall be entitled to elect one member of the Company's Board of Directors.
<b>Board Observation Rights:</b>	Holders of [10%] or more of the Company's outstanding stock will have Board observation rights.
<b>[Co-Sale Agreement:</b>	<p>The Founders will enter into a co-sale agreement pursuant to which any Founder who proposes to sell all or a portion of his shares to a third party (subject to exclusions for 10% of their shares and other standard exceptions) must permit the holders of at least _____ shares of the Preferred to sell a proportionate part of their shares on the same terms offered by the proposed transferee. Such right will terminate upon the closing of an IPO.]</p>
<b>Closing Conditions:</b>	The obligation of Investors to purchase the shares is subject, among other things, to (i) the execution of a definitive stock purchase agreement and other documentation between and among (and acceptable to) the Investors and the Company, including various representations and warranties, (ii) the obtaining of all requisite consents to the transaction and (iii) the receipt of an opinion of counsel to the Company in form and substance acceptable to the Investors.

**Confidentiality:**

The existence and terms of this Term Sheet, and the fact that negotiations may be ongoing with the Investors, are strictly confidential. This term sheet does not constitute an offer to sell, or a solicitation of offers to buy, securities.

**Stock Option Plan**

The Company has adopted a Stock Option and Incentive Plan to attract and retain additional key management, employees, consultants and advisors. \_\_\_\_\_ shares are reserved under the Plan.

**Capitalization:**

Capitalization of the Company is as outlined below.

<u>Type of Security</u>	<u>Common Stock Equivalent Shares</u>
Series A Preferred	_____
Common Stock	_____
	=====