

**SAMPLE IMPACT INVESTMENT TERM SHEET¹
SERIES "R" (RESPONSIBLE) STOCK**

**Summary of Terms for Proposed Private Placement
of "Series R" Preferred Stock of**

[COMPANY]

[DATE]

Issuer: [COMPANY], a [JURISDICTION] [ENTITY TYPE] [a certified B-Corporation] (the "Company").

Company Mission: [INDICATE THE SOCIAL ENTERPRISE MISSION] (the "Mission")

Amount of Financing: Up to [Currency] [AMOUNT], which will be the result of the following new investments:

| | |
|---|-----------------------|
| [LEAD IMPACT INVESTOR] ² | [AMOUNT] |
| Other New Investors | Up to [AMOUNT] |
| [Existing Convertible Notes (if any)] | [AMOUNT] ³ |
| [Existing SAFE/KISS Investors (if any)] | [AMOUNT] |
| Total: | Up to [AMOUNT] |

Price: [AMOUNT] per share (the "Original Series R Purchase Price"). The Original Series R Purchase Price represents a pre-money valuation of [AMOUNT] [(which includes an increase in the unallocated option pool prior to Closing equal to []% of the total fully diluted capitalization of the Company on a post-closing basis).] A capitalization table showing the Company's capital structure immediately following the Closing is attached as Exhibit A.

¹ This sample impact investment term sheet is intended to serve as a starting point only, and should be tailored to meet your specific requirements. This document should not be construed as legal advice for any particular facts or circumstances. Note that this sample document presents an array of (often mutually exclusive) options with respect to particular deal provisions.

² This term sheet is drafted from the perspective of the lead Impact Investor, who is anticipating "impact alpha" returns (full market rate of return with additional measurable social/environmental returns). This term sheet can also be used for concessionary return transactions (less than market returns, balanced by measurable social/environmental returns).

³ Indicate whether this amount is calculated including or excluding accrued interest.

Type of Security: Series R Convertible Preferred Stock (the “Series R Preferred”), initially convertible on a 1:1 basis into shares of the Company’s Common Stock (the “Common Stock”).

Closing: Sale of the Series R Preferred (the “Closing”) is anticipated to take place no later than [DATE].

TERMS OF SERIES R PREFERRED STOCK

Dividends: The holders of the Series R Preferred (each, an “Impact Investor”) shall be entitled to receive non-cumulative dividends at the rate of []% of the Original Series R Purchase Price, payable when and as declared by the Company’s Board of Directors (the “Board”). The holders of Series R Preferred shall also be entitled to participate *pro rata* in any dividends paid on any other series of Preferred or Common Stock of the Company, on an as-if-converted basis.

Liquidation Preference: In the event of any Liquidation or winding up of the Company, the holders of the Series R Preferred [and other Preferred Holders, as a single class] shall be entitled to receive, prior to any distributions made to the holders of the Common Stock, a per share amount equal to the Original Series R Purchase Price plus any declared but unpaid dividends (the “Liquidation Preference”). After the payment of the Liquidation Preference to the holders of the Series R Preferred, the remaining assets shall be distributed ratably to the holders of the Common Stock.⁴

A merger, acquisition, sale of voting control or sale of substantially all of the assets of the Company in which the shareholders of the Company do not own a majority of the outstanding shares of the surviving company shall be deemed to be a Liquidation.

Conversion: The holders of the Series R Preferred shall have the right to convert the Series R Preferred, at any time, into shares of Common Stock. The initial conversion rate shall be 1:1, subject to adjustment as provided below.

Automatic Conversion: All of the Series R Preferred shall be automatically converted into Common Stock, at the then applicable conversion price, upon the closing of a firmly underwritten public offering of shares of Common Stock of the Company at a per share price not less than five times the Original Series R Purchase Price (as adjusted for stock splits, dividends and the like) per share and for a total offering of not less than \$25 million (before deduction of underwriters commissions and expenses) (a “Qualified IPO”). All, or a portion of, each share of

⁴ These securities are anticipated to receive either (1) a pari passu preference to the Series A holders, or (2) a secondary priority preference, receiving distributions after a Series A but prior to Common holders.

the Series R Preferred shall be automatically converted into Common Stock, at the then applicable conversion price in the event that the holders of a majority⁵ of the outstanding Series R Preferred consent to such conversion.

Anti-dilution Provisions: The conversion price of the Series R Preferred will be subject to a broad-based weighted average adjustment to reduce dilution in the event that the Company issues additional equity securities (other than shares reserved as employee shares described under “Employee Pool” below and other customary exclusions) at a purchase price less than the applicable conversion price. The conversion price will be subject to proportional adjustment for stock splits, stock dividends, recapitalizations and the like.

Pro Rata Participation Rights:

All holders of Series R Preferred shall have a pro rata right, based on their percentage equity ownership in the Company (assuming the conversion of all outstanding Preferred Stock into Common Stock and the exercise of all options outstanding under the Company’s stock plans), to participate in subsequent issuances of equity securities of the Company (excluding those issuances listed at the end of the “Anti-dilution Provisions” section of this Term Sheet. In addition, should any holder of Series R Preferred choose not to purchase its full pro rata share, the remaining Impact Investors shall have the right to purchase the remaining pro rata shares.

Voting Rights:

The Series R Preferred will vote together with the Common Stock and not as a separate class, except as specifically provided herein or as otherwise required by law. The Common Stock may be increased or decreased by the vote of holders of a majority of the Common Stock and Series R Preferred voting together on an asifconverted basis, and without a separate class vote. Each share of Series R Preferred shall have a number of votes equal to the number of shares of Common Stock then issuable upon conversion of such share of Series R Preferred.

Board of Directors:

The size of the Board shall be set at Closing at [five (5)] persons. At each meeting for the election of directors, (i) the holders of the Series R Preferred shall be entitled to have [one (1)] member of the Board, and (ii) the holders of the Company’s Common Stock shall be entitled to have [four (4)]⁶ members of the Board. Any Board action

⁵ Consider whether this voting threshold should be majority or unanimous for the particular investment transaction.

⁶ If additional classes of Preferred Stock exist (e.g. Series R) then consider whether one of these 4 seats is reserved for the Series R holders.

shall require the vote of a majority of the Board; provided however, that, any matter relating to an Impact Protective Provision (defined below), shall require the approval of a majority of the Board, which majority must include the vote of the Series R Preferred Board Member.

Impact Protection Provisions:

For so long as any shares of Series R Preferred remain outstanding, consent of the holders of a majority of the Series R Preferred shall be required for any action, whether directly or through any merger, recapitalization or similar event, that (i) alters or changes the rights, preferences or privileges of the Series R Preferred, (ii) increases or decreases the authorized number of shares of Common or Preferred Stock, (iii) increases the numbers of options authorized under the employee option plan, (iv) creates (by reclassification or otherwise) any new class or series of shares having rights, preferences or privileges senior to or on a parity with the Series R Preferred, (v) results in the redemption or repurchase of any shares of Common Stock (other than pursuant to equity incentive agreements with service providers giving the Company the right to repurchase shares upon the termination of services), (vi) results in any merger, other corporate reorganization, sale of control, or any transaction in which all or substantially all of the assets of the Company are sold, (vii) amends or waives any provision of the Company's Certificate of Incorporation or Bylaws, (viii) increases or decreases the authorized size of the Company's Board of Directors, (ix) results in the payment or declaration of any dividend on any shares of Common or Preferred Stock, (x) issues debt in excess of \$1,000,000, (xi) makes any voluntary petition for bankruptcy or assignment for the benefit of creditors, (xii) enters into any exclusive license, lease, sale, distribution or other disposition of its products or intellectual property.

Impact Measurement:

So long as any shares of Series R Preferred remain outstanding, the Company shall produce Impact Metric Reports ("IMRs") on a quarterly basis, according to the criteria described in Exhibit B.

Information Rights:

So long as an Investor continues to hold any shares of Series R Preferred, the Company shall deliver to such Impact Investor: (i) the Company's annual budget, (ii) audited annual and unaudited quarterly financial statements, (iv) quarterly Impact Metric Reports, (v) [INSERT]. Each Investor shall also be entitled to standard inspection and visitation rights. These provisions shall terminate upon a Qualified IPO.

Redemption Rights:

Unless prohibited by Delaware law governing distributions to stockholders, the Series R Preferred shall be redeemable at the option of holders of at least []% of the Series R Preferred, commencing any time after an Impact Protective Event, at a price equal to the Original Purchase Price [plus all accrued but unpaid dividends]. Redemption shall occur in three equal annual portions. Upon a redemption request from the holders of the required percentage of the Series R Preferred, all Series R Preferred shares shall be redeemed [(except for any Series R holders who affirmatively opt-out)].⁷

For purposes of this provision, an “Impact Protective Event” shall mean any of the following: (i) any change to, or the Company's failure to act in accordance with the Company Mission; (ii) [the loss of the Company's B-Corp Certification]; (iii) the failure of the Company to deliver a quarterly IMR for [2] consecutive quarters or more; or (iv) [INSERT].

Registration Rights:

In the event that the Company grants registration rights on any series of its preferred stock in connection with a subsequent equity financing, the Investors shall be granted registration rights with respect to the Series R Preferred that are identical to those registration rights granted in such subsequent equity financing.

Right of First Refusal:

Each Major Investor shall have the right in the event the Company proposes to offer equity securities to any person (other than the shares (i) reserved as employee shares described under “Employee Pool” below, (ii) shares issued for consideration other than cash pursuant to a merger, consolidation, acquisition, or similar business combination approved by the Board (including the Series R Director); and (iii) shares with respect to which the holders of a majority of the outstanding Series R Preferred waive their right of first refusal) to purchase their pro rata portion of such shares. Any securities not subscribed for by an eligible Major Investor may be reallocated among the other eligible Major Investors. Such right of first refusal will terminate upon a Qualified IPO. For purposes of this right of first refusal, an Investor's pro rata right shall be equal to the ratio of (a) the number of shares of common stock (including all shares of common stock issuable or issued upon the conversion of convertible securities) held by such Investor immediately prior to the issuance of such equity securities to (b) the total number of outstanding shares (including all shares of common stock issuable

⁷ Due to statutory restrictions, the Company may not be legally permitted to redeem in the very circumstances where investors most want it (the so-called “sideways situation”). Investors may seek alternative enforcement provisions, *e.g.*, the holders of a majority of the Series R Preferred shall be entitled to elect a majority of the Company's Board of Directors, or shall have consent rights on Company cash expenditures, until such amounts are paid in full.

or issued upon the exercise of outstanding options or the conversion of convertible securities).

- Purchase Agreement:** The investment shall be made pursuant to a Stock Purchase Agreement reasonably acceptable to the Company and the Investors, which agreement shall contain, among other things, appropriate representations and warranties of the Company, covenants of the Company reflecting the provisions set forth herein and appropriate conditions of closing, including an opinion of counsel for the Company.
- Restrictions on Sales:** The Company's Bylaws shall contain a right of first refusal on all transfers of Common Stock, subject to reasonable exceptions. If the Company elects not to exercise its right, the Company shall assign its right to the Major Investors.
- [Drag-Along Agreement:** Holders of Common Stock and Series R Preferred shall enter into a drag-along agreement whereby if the Board and a majority of the holders of Series R Preferred consent to a sale or liquidation of the Company, the holders of the remaining Series R Preferred and Common Stock shall consent to and raise no objections to such sale so long as, in the case of the holders of Common Stock, such stockholders receive at least the same consideration that they would receive if the total consideration receivable by the Company and its stockholders in such transaction were distributed in a complete liquidation of the Company.]
- Co-Sale Agreement:** The shares of the Company's securities held by Aeron Sullivan (the "Founder") shall be made subject to a co-sale agreement (with certain reasonable exceptions) with the Investors such that the Founder may not sell, transfer or exchange their stock unless each Investor has an opportunity to participate in the sale on a pro-rata basis. This right of co-sale shall not apply to and shall terminate upon a Qualified IPO.
- Stock Vesting:** All stock and stock equivalents issued after the Closing to employees, directors, consultants and other service providers will be subject to vesting as follows: 25% to vest at the end of the first year following such issuance, with the remaining 75% to vest monthly over the next three years.
- Employee Pool:** Prior to the Closing, the Company will create an equity incentive plan and reserve [NUMBER] shares of its Common Stock for future issuances to directors, officers, employees and consultants. See Exhibit A for more detail.

- Key Person Insurance:** Company to acquire life insurance on Founders [name each Founder] in an amount satisfactory to the Board. Proceeds payable to the Company.
- Legal Fees and Expenses:** The Company shall bear its own fees and expenses and shall pay at the closing the reasonable fees (not to exceed \$[25,000]) and expenses of investor counsel regardless if any transactions contemplated by this term sheet are actually consummated.
- Confidentiality:** This term sheet and any related discussions and correspondence are to be held in strict confidence by the Company and may not to be disclosed by the Company to any party (other than counsel to, and the accountants of, the parties to the extent reasonably necessary for such persons to render advice in connection with the proposed transaction and other than to existing stockholders of the Company) without the prior written approval of the Investor.
- Governing Law:** This summary of terms shall be governed in all respects by the laws of [INSERT].
- Conditions Precedent to Financing:** Except for the provisions contained herein entitled “Legal Fees and Expenses”, “Confidentiality” and “Governing Law” which are explicitly agreed by the Investors and the Company to be binding upon execution of this term sheet, this summary of terms is not intended as a legally binding commitment by the Investors, and any obligation on the part of the Investors is subject to the completion of legal documentation satisfactory to the prospective Investors.

Acknowledged and agreed:

[LEAD IMPACT INVESTOR]

By: _____

Print Name _____

Title: _____

[COMPANY]

By: _____

Print Name _____

Title: _____

EXHIBIT A
CAPITALIZATION TABLE

EXHIBIT B
IMPACT METRICS