

**Memorandum of Understanding**  
**On**  
**Investment by Galaxy Investment Capital**  
**In the**  
**Series A Preferred Stock of Hi-Tech, Inc.**

This memorandum of understanding is intended to set forth the principal elements of our agreement on investment terms by Galaxy Investment Capital with Hi-Tech, Inc. This memorandum constitutes our entire agreement, until Galaxy has had an opportunity to satisfy its due diligence objectives, and the parties have agreed to a definitive purchase agreement setting forth further terms and conditions for an equity investment in Hi-Tech, Inc.

This memorandum is subject in all respects to the accuracy and completeness of the factual information concerning the technology, business and capitalization of Hi-Tech, Inc. provided to Galaxy by Kishore [ ], Mary [ ] and Robert [ ], the founders, and majority stockholders of the company.

Each of Kishore, Mary, and Robert represent that the financial projections of Hi-Tech, Inc., provided to Galaxy were prepared in good faith and constitute the best estimates of the company's financial performance as of the date of this memorandum.

The terms and conditions of Galaxy's proposed investment in Hi-Tech, Inc. are as follows:

<u>Item</u>	<u>Term</u>
Securities to Be Issued:	Series A Preferred Stock
Amount of Investment:	\$5,000,000 by Galaxy
Valuation:	Pre-money valuation as mutually agreed based on 3,500,000 currently outstanding shares of common stock and the Company's existing reserve of 1,500,000 shares of common stock for future issuance to employees, consultants, and directors of the Company.
Closing:	Anticipated closing date is 3 weeks from today, with all funding to be committed at that time.
Dividends:	Annual dividend representing an annual dividend rate of 10% per share. The dividend shall be cumulative and shall be payable upon the occurrence of a liquidity event. No dividends shall be paid on common stock unless all declared and unpaid dividends shall have been paid in full on the Series A Preferred.
Liquidation Preference:	In the event of any liquidation, dissolution, or winding up of the Company, the holders of the Series A Preferred shall be entitled to

Liquidation Preference: (continued)	<p>receive 2X the original purchase price per share, plus any declared and unpaid dividends, in preference to the holders of the common stock.</p> <p>After the liquidation preference of the Series A Preferred has been satisfied in full, any remaining proceeds shall be paid exclusively to the holders of the common stock.</p> <p>A merger or consolidation of the Company with or into another corporation in which the Company does not survive (unless the shareholders of the Company own more than 50% of the surviving entity), or the sale or transfer of all or substantially all of the Company's assets, or a sale by the founders of more than 50% in interest of their original stock in the Company, will be treated as a liquidation.</p>
Conversion:	<p>Each share of Series A Preferred shall initially be convertible, at the election of the holder at any time, into one share of common stock (i.e., a 1:1 conversion ratio), subject to anti-dilution adjustments described below.</p> <p>Each share of Series A Preferred shall automatically convert, at the conversion ratio then in effect, upon either (i) the consummation of a firmly underwritten public offering of common stock with an offering price of at least \$10.00 per share and aggregate proceeds to the Company in excess of \$50 million (an "initial public offering") or (ii) the written consent of a majority of the outstanding Series A Preferred.</p>
Anti-dilution Adjustment:	<p>Conversion ratio of the Series A Preferred shall be adjusted on the basis of a weighted average "narrow"-based formula taking into account all shares of outstanding Series A Preferred stock and outstanding rights to purchase Series A Preferred stock. This formula shall take effect upon any issuance of capital stock at a price less than the original per share price of the Series A Preferred (other than the sale of common stock to employees, directors and consultants). There shall be proportional adjustments for stock splits and stock dividends.</p>
Voting Rights:	<p>The Series A Preferred shall vote on an "as-converted-to common" basis, and shall be entitled to a class vote as provided by law.</p>
Board Representation:	<p>The holders of the Series A Preferred shall have the right to designate two directors to the board of directors, the holders of the common stock shall have the right to designate one director, who shall be the chief executive officer of the Company, and the holders of both the Series A Preferred and the common stock, voting together as a single class of stock, shall designate a fourth director.</p> <p>In consideration of their services, all non-employee directors upon appointment to the board shall be entitled to receive stock options equal to one third percent of the fully diluted shares, subject to normal four-year vesting, with an exercise price equal to the fair market value of the common stock upon the date of grant.</p>

Pre-Emptive Right:	The holders of the Series A Preferred shall have a right to purchase their pro rata interest in any new issuances of the Company's shares in connection with any future financing transactions of the Company. Such right shall expire upon completion of an initial Public Offering.
Right of First Refusal:	All shares of Common Stock held by each of the founders of the Company shall be made subject to a right of first refusal agreement, such that no such shareholder may sell stock unless the holders of the Series A Preferred have an opportunity to purchase such shares. If such right of first refusal is not exercised in full and shares of any founder remain unsold, then no further undertaking may be made by the founder for the sale of such stock. This right shall terminate upon completion of an initial public offering.
Key-Person Insurance:	The Company shall procure key-person insurance policies for each of the three founders of the Company in the amount of \$2,000,000, naming the Company as beneficiary.
Vesting of Founders' Stock:	The shares of common stock held by the founders shall be made subject to a four-year vesting schedule, commencing one year prior to the inception date of the Company, with all shares vesting in equal amounts over 48 months. In the event of termination of employment of a founder for any reason, then any shares that are unvested at the time of such termination may be repurchased by the Company at their original purchase price; provided, however, that where a founder is terminated without cause within 6 months following a change of more than 50% in the voting control of the Company, then 25% of any then unvested stock held by such founder shall automatically accelerate and vest.
Founders' Employment:	Each founder's employment with the Company shall be "at will".
Employment Arrangements in General:	It is expected that stock option grants to all officers and employees hired by the Company will be subject to a standard four-year vesting schedule, commencing on the date of employment, with a 25% cliff at the first anniversary of employment and monthly vesting thereafter. All employees of the Company shall be employed on an "at will" basis.
Stock Purchase Agreement:	<p>The Series A Preferred financing shall be made pursuant to a Series A Preferred Stock Purchase Agreement which shall contain appropriate representations and warranties of the Company and customary conditions of closing.</p> <p>Any outstanding debt of the Company held by the founders shall be cancelled and reflected as a contribution to equity upon the completion of the financing.</p>

Expenses:	The Company shall pay the legal fees and expenses of counsel for the investors.
Binding Commitment:	This Memorandum of Terms is intended to be a legally binding commitment of the Company and the founders in favor of Galaxy.
Confidentiality:	This Memorandum of Terms is confidential and may not be disclosed by the Company or its employees or directors to any party, other than the Company's founders, counsel, and accountants.

Please indicate your acceptance of this memorandum of understanding by signing where indicated below and returning the originally signed copy of this memorandum to Galaxy Investment Capital.

We look forward to a mutually rewarding relationship.

Galaxy Investment Capital

By: \_\_\_\_\_

Acknowledged and agreed as of \_\_\_\_\_:

\_\_\_\_\_  
Kishore [ ]

\_\_\_\_\_  
Mary [ ]

\_\_\_\_\_  
Robert [ ]