



CASE: E-460
DATE: 9/12/13

EVALUATING VENTURE CAPITAL TERM SHEETS

After a year of intense work on a shoe-string budget, John Stevens and Edward Lopez breathed a sigh of relief. They had just received term sheets from two elite venture capital firms for their startup, Universal MobileApps, Inc. (“Universal”). Securing this funding would give them the runway they felt they needed to fully develop their product.

As they looked over the term sheets, they realized that they were unfamiliar with the terms of these offers, and that there were differences between the two. Neither Stevens nor Lopez had ever raised venture funding before, so they needed to come up to speed quickly—one term sheet expired in three days, the other in four.

UNIVERSAL MOBILEAPPS

Edward Lopez had been fascinated with computers for as long as he could remember. He grew up in New Jersey, but from the time he started high school, he knew he wanted to move to Silicon Valley and work on the cutting edge of computer technology. As a student in Stanford University’s computer science department, he had helped develop several commercial applications, and had gone on to work at Google.

Lopez’s work at Google concentrated on mobile applications. He was involved in several projects, some of which were entirely in-house efforts, and some involved partnering with other companies. He attended conferences to keep up on the latest developments, as well as meet and network with other programmers. As a young programmer, he was always on the lookout for good talent to recruit to Google. He was also always thinking of new products, and new ways to use technology.

William Gornall, Theresia Gouw, David Hoyt, and Professor Ilya Strebulaev prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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As he talked to programmers developing apps for mobile devices, he realized that there might be a good business opportunity if someone could develop a way for people to easily program and manage apps across multiple platforms, allowing apps on different devices, using different operating systems, to talk to each other. He began to work on this idea in his spare time.

Lopez had met John Stevens several years earlier. At the time, Stevens was an investment banking analyst focusing on the mobile industry, with a particular interest in apps. They had met at a conference, and had a long discussion of the industry and its future.

Stevens had majored in economics as an undergraduate. As an analyst, he liked learning about the mobile industry, and particularly enjoyed the chance to meet people from throughout the industry, see what they were working on, what worked and what did not. However, from the beginning, he wanted to work for a startup—the job as an analyst was preparation for that eventuality. The next step in his preparation was to attend the Stanford Graduate School of Business (GSB), and get his MBA. At Stanford, he participated in a wide range of activities related to entrepreneurship, both at the GSB and in the engineering department. While talking with a group of computer science students, one of them mentioned Lopez, who had been looking for students to help with his project. Remembering their conversation years earlier, Stevens looked up Lopez, and they got together. After discussing the idea in great detail, they decided to form a company, Universal MobilApps, Inc. (“Universal”). Stevens was excited by the business concept, and was convinced that Lopez had the technical ability to make it happen. Lopez knew he needed help on the business side, and believed that Stevens had the ability, drive, and industry contacts that were needed to succeed.

Lopez and Stevens worked hard to network in the tech community and in early-2012 they began to talk with angels about the possibility of seed funding. In January, they took an investment from Languita Angels, a well-known angel group, in the form of \$300,000 in convertible notes. (See **Exhibit 1** for the angel term sheet.) They used this money to hire a small staff, and develop software that demonstrated proof of concept on some devices and apps. They then formed technical partnerships with several mobile device manufacturers, including Samsung, Google, Microsoft, and Apple.

They also began searching for new funding; their seed money would run out soon, and they estimated that they needed \$3 million, possibly more, to achieve their next major milestone. They did not want to raise money from their technical partners, as this would tie them too closely to the investing manufacturer(s). However, their ability to partner with such a diverse group of companies, including some bitter enemies, impressed the venture capital (“VC”) community, leading to interest by several top tier VCs.

TWO TERM SHEETS

On June 10, their efforts were rewarded when they received term sheets from two VC firms, Top Gun Venture Partners, and Red Baron Venture Capital. (See **Exhibits 2 and 3** for term sheets.) Top Gun was a premier venture capital firm located on Sand Hill Rd in Menlo Park, California that was known for its successful investments in the past and that had recently raised a large new fund. Red Baron was a smaller, more recently established venture capital firm, located several

miles away from Top Gun in the town of Palo Alto. There were some obvious differences: Top Gun wanted to do the entire deal, for \$4 million. Red Baron's proposal was for a \$6 million round, of which Red Baron would take half. The valuations also differed—Top Gun had a post-money valuation of \$9 million, valuing the company at \$5 million before the new investment. Red Baron's post money valuation was \$12 million, implying a value of \$6 million before the new investment.

They scanned the terms, and realized that evaluating these offers, and deciding how to proceed, would not be easy—this was the first time either of them had been in this position. They would need to consult their attorney, but they wanted to understand the offers in detail—they were selling a substantial part of their business, and were uneasy about agreeing to terms that they did not fully understand.

They began to review the two term sheets, item by item. What were the items they should focus most carefully on? How did the various terms impact their return if the company did well? How were the venture capital term sheets affected by the outstanding convertible notes? What was missing from these term sheets? If they ran into trouble, how would they fare under each of the offers? And how, if at all, should they negotiate these terms?

With only a few days before the term sheets expired, what should they do?

Exhibit 1
Term Sheet: Lagunita Angels

CONVERTIBLE NOTE FINANCING

SUMMARY OF TERMS

January 25, 2012

This Summary of Terms represents only the current thinking of the parties with respect to certain of the major issues relating to the proposed private offering and does not constitute a legally-binding agreement. This Summary of Terms does not constitute an offer to sell or a solicitation of an offer to buy securities in any state where the offer or sale is not permitted.

Issuer:	Universal MobileApps, Inc., a California corporation (the “ <i>Company</i> ”)
Type of Security:	Convertible notes (the “ <i>Notes</i> ”).
Amount of Financing:	Up to \$300,000 of Notes may be issued.
Purchase Price:	Face value.
Interest Rate:	Annual interest rate of 10%, payable at maturity.
Term:	All principal, together with accrued and unpaid interest under the Notes, is due and payable one year after the initial issuance of the Notes (the “ <i>Maturity Date</i> ”).
Prepayment:	The Notes may not be prepaid without the prior written consent of holders of the Notes that hold at least 66 2/3% of the aggregate outstanding principal amount of the Notes.
Automatic Conversion:	In the event the Company consummates, prior to the Maturity Date, an equity financing pursuant to which it sells shares of its preferred stock, which are expected to be Series A Preferred Stock (the “ <i>Preferred Stock</i> ”), with an aggregate sales price of not less than \$2,000,000, including any and all indebtedness that is converted into Preferred Stock (e.g., the Notes), and with the principal purpose of raising capital (a “ <i>Qualified Financing</i> ”), then the Notes will automatically convert all principal, together with all accrued and unpaid interest under the Note, into the Preferred Stock and common stock. The conversion price will be a price per share equal to the lesser of (i) 90% of the price per share paid by the other purchasers of the Preferred Stock sold in the Qualified Financing and (ii) an amount obtained by dividing (x) \$5,000,000 (the valuation cap) by (y) the Company's fully-

diluted pre-money valuation. The total combined number of shares of the Preferred Stock and common stock to be issued upon conversion will equal (x) all principal, together with all accrued and unpaid interest under the Note, *divided by* (y) the applicable conversion price. Of those shares, the number of preferred shares will equal (x) all principal, together with all accrued and unpaid interest under the Note, *divided by* (y) the price per share paid by the other investors purchasing the Preferred Stock in the Qualified Financing. The remaining shares will be common stock.

Voluntary conversion:

If the Company consummates a preferred stock financing that does not constitute a Qualified Financing, the Notes will be convertible into the preferred stock issued in the financing at a conversion price equal to the price per share paid by the other investors in the financing. If the Company does not consummate a Qualified Financing prior to the Maturity Date, the Notes will be convertible into common stock at a conversion price equal to the lesser of (i) \$1.00 per share and (ii) an amount obtained by dividing (x) \$5,000,000 (the valuation cap) by (y) the Company's fully-diluted pre-money valuation.

Liquidity events:

Upon a change of control or an IPO, the Notes will be convertible into common stock at a conversion price equal to the lesser of (i) \$1.00 per share and (ii) an amount obtained by dividing (x) \$5,000,000 (the valuation cap) by (y) the Company's fully-diluted pre-money valuation. Upon a change of control or an IPO, the Note holder will have the option to have the Note instead be repaid with a premium equal to 20% of the outstanding principal.

Other:

This Summary of Terms is intended as an outline of certain of the material terms of the Notes and does not purport to summarize all of the conditions, covenants, representations, warranties and other provisions that would be contained in definitive documentation for the Notes.

Non-Binding:

The undersigned acknowledge that this Summary of Terms does not constitute a binding agreement.

This Summary of Terms reflects our mutual intentions as a basis for proceeding toward negotiation of definitive agreements.

Exhibit 2
Term Sheet: Top Gun Venture Partners

TOP GUN VENTURE PARTNERS
SUMMARY OF PROPOSED TERMS & CONDITIONS
SERIES A PREFERRED STOCK

UNIVERSAL MOBILEAPPS, INC.

June 10, 2012

I. SUMMARY

Issuer: Universal MobileApps, Inc. (the “**Company**”).

Total Amount of Financing: \$4,000,000.

Investors and Amounts: Top Gun Venture Partners (“**TGVP**”): 4,000,000

Security: Series A Preferred Stock (“**Series A Preferred**”).

Capital Structure: Based upon a \$9,000,000 post-money valuation.

Option Pool: Post-closing the Company shall have a 25% pool available.

Price Per Share: \$1.00 (“**Series A Original Issue Price**”)

First Closing: Anticipated to be on or before May 25, 2012

II. TERMS OF THE SERIES A PREFERRED

- A. Dividends:** The holders of the Series A Preferred will be entitled to receive non-cumulative dividends in preference to any dividends on Common Stock, but pari passu with the holders of Series A Preferred Stock and Series B Preferred Stock of the Company (together, the “**Existing Preferred**”), at the rate of 8% per annum when, as and if declared by the Company’s Board of Directors (“**Board**”).
- B. Liquidation Preference:** In the event of any liquidation or winding up of the Company, the holders of Series A Preferred (the “**Preferred Stock**”) will be entitled to receive, in

preference to the holders of the Common Stock, an amount per share equal to the respective original issue prices for each series Preferred Stock held by such holders, as adjusted for any recapitalization, stock split and the like, plus declared but unpaid dividends (the “**Preferred Liquidation Preference**”). After payment in full of the Preferred Liquidation Preference the remaining proceeds shall be distributed to the holders of Common Stock.

A consolidation or merger of the Company or sale of equity for other than financing purposes that results in the stockholders owning less than a majority of the voting equity of the surviving company, or sale or other transfer of all or substantially all of the Company’s assets or any other voluntary or involuntary dissolution of the Company will be deemed to be liquidation or winding up (a “**Liquidation Event**”) for purposes of causing the payment of the liquidation amounts set forth above.

C. Conversion Features:

(1) Conversion. Initially, Series A Preferred will be convertible to Common Stock at a conversion ratio of one-to-one, subject to adjustment as provided below.

(2) Automatic Conversion. Each series of Preferred Stock shall be automatically converted into Common Stock at its then applicable conversion price: (i) in the event of an underwritten public offering of shares of the Common Stock at an aggregate offering price (prior to underwriting discounts, commissions and expenses) of at least \$40,000,000 with a pre-offering valuation of not less than \$300,000,000 (“**Qualifying IPO**”); or (ii) the date upon which the Company obtains the vote of the majority of Preferred holders to such conversion.

(3) Antidilution Provisions. The conversion price of the Series A Preferred shall be subject to adjustment in the event of any stock split, stock dividend, combination or similar recapitalization or change with respect to the Company’s Common Stock. The conversion rate of the Preferred Stock shall be subject to a broad-based weighted average antidilution adjustment in the event of issuance of equity securities at a price less than the then-effective conversion price for each applicable series of Preferred Stock, except for the issuance of securities described below, which shall be known herein as “**Excluded Securities**”:

- (i) securities issued as a dividend or distribution on Preferred Stock;
- (ii) securities issued as stock splits or stock dividends;
- (iii) securities issued to employees, directors or consultants pursuant to a plan or agreement or arrangement approved by the Board;
- (iv) common stock issued upon exercise or conversion of options and warrants that are outstanding as of the date of this Summary of terms;
- (v) securities issued to banks, equipment lessors or other financial institutions, or to real property lessors, pursuant to a debt financing, equipment leasing or real property leasing transaction approved by the Board including the approval of a majority of the directors elected by the holders of Preferred Stock (the “**Preferred Directors**”);
- (vi) securities issued to suppliers or third party service providers in connection with the provision of goods or services pursuant to transactions approved by the Board including the approval of a majority of the Preferred Directors;
- (vii) securities issued pursuant to the acquisition of another entity by the Company or pursuant to a joint venture agreement, provided, that such issuances are approved by the approved by the Board including the approval of a majority of the Preferred Directors;
- (viii) securities issued in connection with sponsored research, collaboration, technology license, development, OEM, marketing or other similar agreements or strategic partnerships approved by the Board including the approval of a majority of the Preferred Directors, provided that such instances are for other than primarily equity financing purposes;
- (ix) Common Stock issued upon conversion of Series A Preferred.

D. Voting Rights:

The holder of each share of Series A Preferred will have the right to that number of votes equal to the number of shares of Common Stock issuable upon conversion thereof.

E. Protective Provisions:

The consent of the Preferred Majority will be required for any action that:

- (i) liquidates, dissolves or wind-ups the Company or is a Liquidation Event;
- (ii) amends, alters or repeals any provision of the Certificate of Incorporation or Bylaws of the Company; or engages in any action that would adversely affect the rights, preferences or privileges of the Preferred Stock;
- (iii) authorizes or issues any capital stock that is pari passu or senior to any series of Preferred Stock (except for the issuance of the shares of Series A Preferred to be issued pursuant to this Summary of Terms);
- (iv) increases or decreases the authorized number of shares of Preferred Stock or Common Stock;
- (v) purchases or redeems or pays or declares any dividend or make any distribution on, any shares of capital stock of the Company other than dividends or other distributions payable on the Common Stock solely in the form of additional shares of Common Stock and repurchases of stock from individuals who are Company service providers;
- (vi) increases the authorized number of shares of Common Stock issuable pursuant to the Company's equity plans;
- (vii) authorizes or issues any debt, if the aggregate indebtedness of the Company would exceed \$500,000 unless such debt is approved by the Board, including the approval of a majority of the Preferred Directors;
- (viii) results in the Company holding capital stock in any subsidiary that is not wholly owned by the Company, or transfers any capital stock of any subsidiary of the Company, or permits any subsidiary to license or otherwise dispose of all or substantially all of the assets of any such subsidiary;
- (ix) results in the Company acquiring a material interest in another entity for an amount greater than \$500,000 unless such transaction has been approved by the Board including a majority of the Preferred Directors; or
- (x) increases or decreases the number of authorized directors on the Board.

In addition to any other vote or consent required herein or by law, the Company shall not without the consent of the holders of at least fifty-one percent (51%) of the then outstanding shares of Series A Preferred:

(i) amend any provision of the Company's Certificate of Incorporation or the Company's Bylaws if such action would alter or change materially and adversely the preferences, rights, privileges or powers of, or the restrictions provided for the benefit of, the Series A Preferred Stock; or

(ii) increase or decrease the number of authorized shares of Series A Preferred.

F. Pre-emptive Rights:

Each holder of at least \$1,000,000 of Series A Preferred shall have the right to participate, pari passu with any such rights held by holders of the Existing Preferred, in any future issuance of stock or other equity securities up to that amount equal to such holder's pro rata ownership of the outstanding capital stock of the Company. The pre-emptive rights described herein shall terminate upon a Qualifying IPO or a Liquidation.

G. Secondary Sales:

The Company shall have a right of first refusal to repurchase the shares of Common Stock of the Company proposed to be transferred by any holder of Common Stock (except Common Stock issued upon conversion of Preferred Stock), subject to exception for transfers to family members and transfers for estate and tax planning purposes. In the event the Company is unable to, or elects not to, exercise such right of first refusal, the holders of Series A Preferred will have a right of first refusal, subordinate to the Company's right, but pari passu with such right held by holders of the Existing Preferred, to purchase any such shares proposed to be sold at any time prior to the Company's initial public offering of the Common Stock of the Company.

H. Right of Co-Sale:

Holders of Series A Preferred shall have a right of co-sale with respect to shares of Common Stock of the Company proposed to be transferred by any holder of Common Stock (except Common Stock issued upon conversion of Preferred Stock), subject to exception for transfers to family members and transfers for estate and tax planning purposes, pari passu with the co-sale rights held by the Existing Preferred.

I. Information Rights:

For so long as at least 20% of the originally issued Series A Preferred is outstanding, the Company will provide inspection rights as reasonably requested by the holders of

Series A Preferred and will deliver to the holders of Series A Preferred or Common Stock issued upon conversion thereof:

(i) within 120 days after the end of each fiscal year, annual financial statements, audited by a nationally recognized public accountant selected by the Board including the approval of a majority of the Preferred Directors;

(ii) within 30 days after the end of each month and each quarter, monthly and, as applicable quarterly, unaudited financial statements;

(iii) within 30 days before the end of each fiscal year, the financial plan of the Company for the next fiscal year; and

(iv) within 30 days after the end of the fiscal year, a report setting forth all equity and debt holders of the Company.

The information rights described herein shall terminate on a Qualifying IPO.

J. Registration Rights:

The holders of Series A Preferred will have registration rights.

K. No Redemption:

None of the Preferred Stock will have redemption rights.

M. Board of Directors:

The board will initially have three (3) members. TGVP shall be entitled to designate one board member, initially Andrew Liekerman. Common shall be entitled to designate 2 board seats, one of which will be CEO of the Company. Any additional board members in the future shall be mutually agreed upon by both TGVP and the Company. The Company shall reimburse all Board members reasonable and actual out of pocket expenses incurred in attending Board meetings.

III. OTHER MATTERS

The Company agrees to pay for all reasonable legal and due diligence fees and expenses of TGVP counsel listed below and consultants up to \$30,000 upon the closing.

IV. CONDITIONS TO CLOSING

- (1) The Investors shall have completed to their satisfaction all legal, intellectual property, technical, corporate and other due diligence review.
- (2) The Company shall have obtained all necessary board of director, shareholder and other legally required approvals.
- (3) The parties shall have executed definitive agreements, including a stock purchase agreement, which contains representations and warranties appropriate for an investment of the nature described herein.

V. NO SHOP

Upon reaching agreement on this Summary of Proposed Terms and Conditions, neither the Company nor any of their directors, officers or agents will entertain discussions with any other investor or consider any other investment or acquisition proposals for a period of 30 days without the prior approval of TGVP.

VI. CONFIDENTIALITY

This Summary of Proposed Terms and Conditions and any related correspondence from the Investors are to be held in strict confidence and are not to be disclosed to any party, other than the Company's legal and financial advisors, without the prior approval of TGVP.

VII. EXPIRATION

This Summary of Proposed Terms and Conditions shall expire at 5:00 pm US Pacific Time on June 14, 2012 if not executed by the Company and TGVP by such date.

This Summary of Proposed Terms and Conditions is only a statement of the present intentions of the parties hereto and is not a binding contract, commitment or agreement, with the exception of Section V (No-Shop) and Section VI (Confidentiality) which Sections shall be binding upon the parties, and shall be superseded in full by any definitive agreement the parties may enter into with respect to an investment in the Company. If the parties do not enter into an agreement with respect to an investment in the Company on or before the expiration of the No-Shop period described above, the provisions Section VI (Confidentiality) shall remain in full force and effect for one (1) year from the date of such No-Shop expiration and be enforceable by specific performance.

UNIVERSAL MOBILE APPS, INC.

TOP GUN VENTURE PARTNERS

By: _____

By: _____

Title: _____

Title: _____

Date: _____

Date: _____

Exhibit 3
Term Sheet: Red Baron Venture Capital

TERM SHEET
FOR SERIES A PREFERRED STOCK FINANCING OF
UNIVERSAL MOBILEAPPS, INC.
 JUNE 10, 2012

This Term Sheet summarizes the principal terms of the Series A Preferred Stock Financing of Universal MobileApps, Inc., (the “**Company**”). In consideration of the time and expense devoted and to be devoted by the Investors with respect to this investment, the No Shop/Confidentiality provisions of this Term Sheet shall be binding obligations of the Company whether or not the financing is consummated. No other legally binding obligations will be created until definitive agreements are executed and delivered by all parties. This Term Sheet is not a commitment to invest, and is conditioned on the completion of due diligence, legal review and documentation that is satisfactory to the Investors. This Term Sheet shall be governed in all respects by the laws of the State of California.

Offering Terms

<i>Closing Date:</i>	Anticipated to be on or before August 25, 2012.
<i>Investors:</i>	Investor No. 1: Red Baron Venture Capital (“ RBVC ”): 3,000,000 shares (25%), \$3,000,000 Investor No. 2: Other Venture Firm to be mutually agreed upon by both RBVC and the Company: 3,000,000 shares (25%), \$3,000,000
<i>Amount Raised:</i>	\$6,000,000.
<i>Price Per Share:</i>	\$1 per share (based on the capitalization of the Company set forth below) (the “ Original Purchase Price ”).
<i>Pre-Money Valuation:</i>	The Original Purchase Price is based upon a fully-diluted pre-money valuation of \$6,000,000 and a fully-diluted post-money valuation of \$12,000,000 (including an employee pool representing 15% of the fully-diluted post-money capitalization).
<i>Capitalization</i>	See Addendum A for the <i>pro forma</i> capitalization following the proposed offering.

CHARTER

<i>Dividends:</i>	Dividends will be paid on the Series A Preferred on an as-converted basis when, as, and if paid on the Common Stock
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Liquidation Preference:

In the event of any liquidation, dissolution or winding up of the Company, the proceeds shall be paid as follows:

First pay one times the Original Purchase Price plus accrued dividends on each share of Series A Preferred. Thereafter, Series A Preferred participates with Common Stock pro rata on an as-converted basis until the holders of Series A Preferred receive an aggregate of 2.50 times the Original Purchase Price (including the amount paid pursuant to the preceding sentence).

A merger or consolidation (other than one in which stockholders of the Company own a majority by voting power of the outstanding shares of the surviving or acquiring corporation) and a sale, lease, transfer, exclusive license or other disposition of all or substantially all of the assets of the Company will be treated as a liquidation event (a “**Deemed Liquidation Event**”), thereby triggering payment of the liquidation preferences described above unless the holders of two-thirds of the Series A Preferred elect otherwise.

Voting Rights:

The Series A Preferred shall vote together with the Common Stock on an as-converted basis, and not as a separate class, except (i) the Series A Preferred as a class shall be entitled to elect two (2) members of the Board (the “**Series A Directors**”), and (ii) as required by law. The Company’s Certificate of Incorporation will provide that the number of authorized shares of Common Stock may be increased or decreased with the approval of a two-thirds majority of the Preferred and Common Stock, voting together as a single class, and without a separate class vote by the Common Stock.

Protective Provisions:

So long as any shares of Series A Preferred are outstanding, in addition to any other vote or approval required under the Company’s Charter or By-laws, the Company will not, without the written consent of the holders of at least two-thirds of the Company’s Series A Preferred, either directly or by amendment, merger, consolidation, or otherwise:

- (i) liquidate, dissolve or wind-up the affairs of the Company, or effect any merger or consolidation or any other Deemed Liquidation Event; (ii) amend, alter, or repeal any provision of the Certificate of Incorporation or; (iii) create or authorize the creation of or issue any other security convertible into or exercisable for any equity security, having rights, preferences or privileges senior to or on parity with the Series A Preferred, or increase the authorized number of shares of Series A Preferred; (iv) purchase or redeem or pay any dividend on any capital stock prior to the Series A Preferred; or (v) create or authorize the creation of any debt security; (vi) create or hold capital stock in

any subsidiary that is not a wholly-owned subsidiary or dispose of any subsidiary stock or all or substantially all of any subsidiary assets; or (vii) increase or decrease the size of the Board of Directors.

Optional Conversion:

The Series A Preferred initially converts 1:1 to Common Stock at any time at option of holder, subject to adjustments for stock dividends, splits, combinations and similar events and as described below under “Anti-dilution Provisions.”

Anti-dilution Provisions:

In the event that the Company issues additional securities at a purchase price less than the current Series A Preferred conversion price, such conversion price shall be adjusted in accordance with a full-ratchet formula: the conversion price will be reduced to the price at which the new shares are issued

The following issuances shall not trigger anti-dilution adjustment:

(i) securities issuable upon conversion of any of the Series A Preferred, or as a dividend or distribution on the Series A Preferred; (ii) securities issued upon the conversion of any debenture, warrant, option, or other convertible security; (iii) Common Stock issuable upon a stock split, stock dividend, or any subdivision of shares of Common Stock; and (iv) shares of Common Stock (or options to purchase such shares of Common Stock) issued or issuable to employees or directors of, or consultants to, the Company pursuant to any plan approved by the Company’s Board of Directors.

Mandatory Conversion:

Each share of Series A Preferred will automatically be converted into Common Stock at the then applicable conversion rate in the event of the closing of a underwritten public offering with a price of five times the Original Purchase Price (subject to adjustments for stock dividends, splits, combinations and similar events) and net proceeds to the Company of not less than \$30,000,000 (a “QPO”), or (ii) upon the written consent of the holders of two-thirds of the Series A Preferred.

Pay-to-Play:

On any subsequent down round all Investors are required to purchase their pro rata share of the securities set aside by the Board for purchase by the Investors. All shares of Series A Preferred of any Investor failing to do so will automatically convert to Common Stock and lose the right to a Board seat if applicable.

Redemption Rights:

Unless prohibited by California law governing distributions to stockholders, the Series A Preferred shall be redeemable at the option of holders of at least two-thirds of the Series A Preferred commencing any time at a price equal to the Original Purchase

Price. Redemption shall occur in three equal annual portions. Upon a redemption request from the holders of the required percentage of the Series A Preferred, all Series A Preferred shares shall be redeemed (except for any Series A holders who affirmatively opt-out).

STOCK PURCHASE AGREEMENT

Representations and Warranties: Standard representations and warranties by the Company.

Conditions to Closing: Standard conditions to Closing, which shall include, among other things, satisfactory completion of financial and legal due diligence, qualification of the shares under applicable Blue Sky laws, the filing of a Certificate of Incorporation establishing the rights and preferences of the Series A Preferred, and an opinion of counsel to the Company.

Counsel and Expenses: Investor counsel to draft closing documents. Company to pay all legal and administrative costs of the financing, including reasonable fees (not to exceed \$40,000) and expenses of Investor counsel.

INVESTORS' RIGHTS AGREEMENT

Registration Rights:

Registrable Securities: All shares of Common Stock issuable upon conversion of the Series A Preferred will be deemed “**Registrable Securities.**”

Demand Registration: Upon earliest of (i) four years after the Closing; or (ii) six months following an initial public offering (“**IPO**”), persons holding two-thirds of the Registrable Securities may request one (consummated) registrations by the Company of their shares. The aggregate offering price for such registration may not be less than \$10 million. A registration will count for this purpose only if (i) all Registrable Securities requested to be registered are registered and (ii) it is closed, or withdrawn at the request of the Investors (other than as a result of a material adverse change to the Company).

Registration on Form S-3: The holders of 20% of the Registrable Securities will have the right to require the Company to register on Form S-3, if available for use by the Company, Registrable Securities for an aggregate offering price of at least \$2.5 million. There will be no limit on the aggregate number of such Form S-3 registrations, provided that there are no more than two per year.

Piggyback Registration: The holders of Registrable Securities will be entitled to “piggyback” registration rights on all registration statements of the Company, subject to the right, however, of the Company and its underwriters to

reduce the number of shares proposed to be registered to a minimum of 20% on a pro rata basis and to complete reduction on an IPO at the underwriter's discretion. In all events, the shares to be registered by holders of Registrable Securities will be reduced only after all other stockholders' shares are reduced.

Expenses:

The registration expenses (exclusive of stock transfer taxes, underwriting discounts and commissions will be borne by the Company. The Company will also pay the reasonable fees and expenses of one special counsel to represent all the participating stockholders.

Lock-up:

Investors shall agree in connection with the IPO, if requested by the managing underwriter, not to sell or transfer any shares of Common Stock of the Company for a period of up to 180 days following the IPO (provided all directors and officers of the Company agree to the same lock-up). Such lock-up agreement shall provide that any discretionary waiver or termination of the restrictions of such agreements by the Company or representatives of the underwriters shall apply to Investors, pro rata, based on the number of shares held.

Termination:

Upon a Deemed Liquidation Event; or when all shares of an Investor are eligible to be sold without restriction under Rule 144 or the first anniversary of the IPO.

No future registration rights may be granted without consent of the holders of a majority of the Registrable Securities unless subordinate to the Investor's rights.

Management and Information Rights:

A Management Rights letter from the Company, in a form reasonably acceptable to the Investors, will be delivered prior to Closing to each Investor that requests one.

Any Investor (who is not a competitor) will be granted access to Company facilities and personnel during normal business hours and with reasonable advance notification. The Company will deliver to such Investor (i) annual and quarterly financial statements, and other information as determined by the Board; (ii) thirty days prior to the end of each fiscal year, a comprehensive operating budget forecasting the Company's revenues, expenses, and cash position on a month-to-month basis for the upcoming fiscal year.

Right to Participate Pro Rata in Future Rounds:

All Investors 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 Investor choose not to purchase its full pro rata share, the remaining Investors shall have the right to purchase the remaining pro rata shares.

*Matters Requiring Investor
Director Approval:*

So long as the holders of Series A Preferred are entitled to elect a Series A Director, the Company will not, without Board approval, which approval must include the affirmative vote of both of the Series A Directors:

(i) make any loan or advance to, or own any stock or other securities of, any subsidiary or other corporation, partnership, or other entity unless it is wholly owned by the Company; (ii) make any loan or advance to any person, including, any employee or director, except advances and similar expenditures in the ordinary course of business or under the terms of a employee stock or option plan approved by the Board of Directors; (iii) guarantee; any indebtedness except for trade accounts of the Company or any subsidiary arising in the ordinary course of business; (iv) make any investment inconsistent with any investment policy approved by the Board; (v) enter into or be a party to any transaction with any director, officer or employee of the Company or any “associate” (as defined in Rule 12b-2 promulgated under the Exchange Act) of any such person except transactions made in the ordinary course of business and pursuant to reasonable requirements of the Company’s business and upon fair and reasonable terms that are approved by a majority of the Board of Directors; (vi) hire, fire, or change the compensation of the executive officers, including approving any option grants; (vii) change the principal business of the Company, enter new lines of business, or exit the current line of business; (viii) sell, assign, license, pledge or encumber material technology or intellectual property, other than licenses granted in the ordinary course of business; or (ix) enter into any corporate strategic relationship involving the payment contribution or assignment by the Company or to the Company of assets greater than \$100,000.00.

*Non-Disclosure and
Developments Agreement:*

Each current and former Founder, employee and consultant will enter into a non-disclosure and proprietary rights assignment agreement in a form reasonably acceptable to the Investors.

Board Matters:

The Board of Directors shall meet at least quarterly, unless otherwise agreed by a vote of the majority of Directors.

The Company will bind D&O insurance with a carrier and in an amount satisfactory to the Board of Directors. Company to enter into Indemnification Agreement with each Series A Director in form acceptable to such director. In the event the Company merges with another entity and is not the surviving corporation, or transfers all of its assets, proper provisions shall be made so that successors of the Company assume the Company's obligations with respect to indemnification of Directors.

Stock Vesting:

Stock owned by John Stevens and Edward Lopez will be 25% vested and the remaining 75% will be subject to repurchase by the Company or its designee at the original issuance price, in the event of a termination of the holder's relationship with the Company. The repurchase right shall last for 36 months from the date of Closing and will lapse monthly. All stock and stock equivalents issued after the Closing to employees, directors, consultants and other service providers (including the option grants to Founders) will be subject to vesting as follows: 25% after one year, with remaining vesting monthly over next 36 months.

Key Person Insurance:

Company to acquire life insurance on Founders John Stevens and Edward Lopez in an amount satisfactory to the Board. Proceeds payable to the Company.

RIGHT OF FIRST REFUSAL/CO-SALE AGREEMENT

*Right of first Refusal/
Right of Co-Sale:*

Company first and Investors second (to the extent assigned by the Board of Directors,) will have a right of first refusal with respect to any shares of capital stock of the Company proposed to be transferred by Founders, with a right of oversubscription for Investors of shares unsubscribed by the other Investors. Before any such person may sell Common Stock, he will give the Investors an opportunity to participate in such sale on a basis proportionate to the amount of securities held by the seller and those held by the participating Investors.

VOTING AGREEMENT

Board of Directors:

At the initial Closing, the Board shall consist of three (3) members comprised of (i) Aaron Nelson as the representative designated by RBVC, as the lead Investor, (ii) the representative designated by the other Venture Firm, (iii) the representative designated by the Founders who will then serve as the Chief Executive Officer of the Company.

OTHER MATTERS

No Shop/Confidentiality:

The Company agrees to work in good faith expeditiously towards a closing. The Company and the Founders agree that they will not, for a period of six weeks from the date these terms are accepted, take any action to solicit, initiate, encourage or assist the submission of any proposal, negotiation or offer from any person or entity other than the Investors relating to the sale or issuance, of any of the capital stock of the Company and shall notify the Investors promptly of any inquiries by any third parties in regards to the foregoing. The Company will not disclose the terms of this Term Sheet to any person other than officers, members of the Board of Directors and the Company's accountants and attorneys and other potential Investors acceptable to Red Baron Venture Capital, as lead Investor, without the written consent of the Investors.

Expiration:

This Term Sheet expires on June 13, 2012 if not accepted by the Company by that date.

Universal MobileApps, inc.

RED BARON Venture Capital

By: _____

By: _____

Title: _____

Title: _____

Date: _____

Date: _____