

SEATTLE ANGEL CONFERENCE 2012
CONVERTIBLE LOAN TERM SHEET

THIS TERM SHEET SUMMARIZES THE PRINCIPAL TERMS OF THE PROPOSED FINANCING FOR THE COMPANY THAT IS SELECTED AS A WINNER AMONG THE COMPANIES AT THE SEATTLE ANGEL CONFERENCE 2012 (THE “COMPANY”). THE PURPOSE OF THIS TERM SHEET IS TO PROVIDE THE BASIS FOR POSSIBLE INVESTMENT; THERE IS NO OBLIGATION ON THE PART OF ANY NEGOTIATING PARTY UNTIL A DEFINITIVE NOTE PURCHASE AGREEMENT IS SIGNED BY ALL PARTIES. THIS TERM SHEET IS SUBJECT TO THE SATISFACTORY COMPLETION OF DUE DILIGENCE. THIS TERM SHEET DOES NOT CONSTITUTE EITHER AN OFFER TO SELL OR AN OFFER TO PURCHASE SECURITIES. THIS TERM SHEET AND ANY TERMS CONTAINED HEREIN MAY BE CHANGED AT ANY TIME BY THE INVESTOR (AS DEFINED BELOW).

Amount of Convertible Loan:	\$ _____ (the “ <u>Loan Amount</u> ”) from Seattle Angel Conference 2012 Investors, LLC, a Washington limited liability company (the “ <u>Investor</u> ”). At Closing, a convertible promissory note (the “ <u>Note</u> ”) will be issued to the Investor for cash equal to the principal balance of the Note.
Company Structure and Existing Financing:	This Term Sheet assumes the Company is a “C” corporation or is ready to become a “C” corporation prior to the closing of the financing, and does not have an existing financing in progress. If the Company has an existing financing in progress, the Investor may invest on the terms of such existing financing, rather than the terms set forth herein, so long as such terms are reasonable in the sole discretion of the Investor.
Closing:	The closing will occur as soon as reasonably practicable after the 2012 Seattle Angel Conference. The Investor retains the right to cease negotiations with the Company at any time. The Company will provide to the Investor, on a timely basis, due diligence items requested by the Investor, and be available to answer questions which may arise about the Company.
Company Covenants:	The Company will covenant in the Note not to grant any liens on or pledge any its assets while the Note is outstanding.
Use of Funds:	Working capital to support the growth of the Company. The proceeds from the sale of the Note shall <u>not</u> be used to repay existing loans, pay deferred or accrued compensation or pay past due trade payables. The Company will represent and warrant that it doesn’t owe any accrued or deferred or accrued compensation amounts.
Interest:	Simple interest will accrue at the rate of eight percent (8%) per annum and will be payable in full upon maturity.
Maturity Date:	The Note will be due eighteen (18) months from the date of the Closing (the “ <u>Maturity Date</u> ”), or earlier upon a default or an acquisition of the Company. The Investor, in its sole discretion, may elect in writing to

extend the term of the Note and in connection therewith subject such extension to additional terms and conditions as may be agreed upon by the Investor and the Company.

Conversion:

Automatic Conversion.

The Note and all accrued interest will automatically convert into shares of equity in the next class or series issued by the Company, if such equity financing raises at least \$500,000 (excluding the amount of this Note and any other notes outstanding as of the date of this Note), is led by a venture capital firm or an angel investment group experienced in investing in startup companies, and takes the form of a priced preferred stock financing with industry standard terms and conditions (a “**Qualified Equity Financing**”).

Upon the closing of a Qualified Equity Financing, the Note and all accrued interest will convert at a conversion price equal to the lower of: (a) the issue price of the shares sold in the Qualified Equity Financing, subject to a discount described below; or (b) a price which reflects a pre-money valuation of [_____ million dollars (\$_____,000,000)] [TO BE INSERTED LATER BASED ON DILIGENCE] on a fully diluted basis (the “***Valuation Cap***”). The Investor shall otherwise convert on the same terms and conditions applicable to the other purchasers in the Qualified Equity Financing.

The Investor shall receive a discount from the issue price of the shares sold in Qualified Equity Financing as follows: (i) if the conversion occurs during the first six (6) months after the date of the Closing, eighty five percent (85%) of the issue price of the shares, (ii) if the conversion occurs more than six (6) months but up to twelve months (12) after the date of the Closing, eighty percent (80%) of the issue price of the shares, or (iii) if the conversion occurs more than twelve (12) months after the Closing, seventy-five percent (75%) of the issue price of the shares.

Optional Conversion.

The Investor shall have the right at any time prior to the repayment of this Note in cash or the conversion of this Note into equity, in the Investor’s sole discretion and option, to convert the Note and all accrued interest into (a) shares of the Company’s common stock based on the lowest price per share at which the Company issued stock during the period of time in which this Note was outstanding, but in any event at no greater value than the Valuation Cap.

Payment.

If the Note has not converted to equity prior to the Maturity Date and the Investor has not otherwise converted the Note into equity, the amount of the Note and all accrued interest will be due and payable in full immediately upon the Maturity Date.

Prepayment: No prepayment without the prior written consent of the Investor.

Acquisition Following Note Repayment: If the Company is acquired during the first six (6) months following full repayment of all amounts due under the Note in cash, the Company shall pay the Investor, in addition to all other amounts due and payable with respect to this Note, within thirty (30) days following the closing of such acquisition, an amount determined as follows: 1.5X the original principal balance of the Note; for an acquisition closed more than six (6) months but less than nine (9) months after full repayment of the all amounts due under the Note, the Company shall pay 1.0X the original principal balance of the Note; for an acquisition closed more than nine (9) months up to twelve (12) months after full repayment of all amounts due under the Note, the Company shall pay 0.5X the original principal balance of the Note.

Default: The Note will be in default and all principal and accrued interest shall be due in full in the event of any of the following:

- (a) Failure to pay interest or principal when due;
- (b) Bankruptcy, insolvency or similar proceedings; or
- (c) Any material breach by the Company of the terms of the Note or other agreements with the Investor.

Reports: For so long as the Investor owns debt or equity in the Company, the Company will be obligated to provide the Investor with unaudited quarterly financial statements within 45 days after the end of each fiscal quarter and unaudited annual financial statements with 90 days after the end of each fiscal year (unless the Company's financial statements are audited, in which case the Company will provide the Investor the audited financial statements). In addition, the Company will provide to the Investor a quarterly summary of business activity and other information as reasonably requested by the Investor.

Board Observer The Investor will have the right to have one observer present at all meetings of the board, including any committees thereof. The right to have an observer at such meetings will terminate at such time as this Note has been converted and the Investor holds less than 10% of the outstanding capital stock of the Company. If an observer is appointed, such person will be entitled to notice of such meetings and to receive all information and materials provided to board members participating in such meetings or taking any action without a meeting, in any case at the

same time as board members receive such notice and materials.

Most Favored Terms:

Holders of the Note will be entitled to receive the benefit of any more favorable terms or conditions that may be provided to other lenders to, and/or investors in, the Company prior to the date that the Notes are converted into capital stock of the Company.

Amendment:

The Note and any related agreements may be amended with the consent of the Company and the Investor.

Due Diligence Documents

The Company will provide the documents requested on Attachment A promptly following the execution of this Term Sheet.

Expenses:

Each party will be responsible for their own fees and expenses in connection with this transaction, provided, however, that the Company will reimburse the Investor for the fees and expenses of its counsel. The Investor will prepare investment documents based on this Term Sheet.

Attachment A
Seattle Angel Conference 2012 Investors, LLC
Due Diligence Document Request

Provide all information about the Company, including any subsidiaries, from the inception of the Company. Reference to any “agreement” includes any oral agreement, and a written description of such oral agreement must be provided. The Fund may request additional documentation on a case by case basis.

Provided or N/A	Description
A	Basic Corporate Information
A1	Articles/Certificate of Incorporation, Bylaws
A2	Minutes/written consents of shareholders and Board of Directors
A3	List of officers, directors and key employees
A4	List of all shareholders (and holders of options/warrants) setting forth the shares owned (or subject to option/warrant), and copies of all agreements related to the issuance of the shares (and options/warrants)
A5	Copies of any shareholder (or buy-sell) agreement, voting agreement, investor rights agreement, registration agreement or any other agreement affecting the issuance, transfer or sale of shares
A6	Copies of all promissory notes, credit agreements or other evidence of indebtedness
A7	Most recent monthly and annual financial statements, including a current list of all accounts payable
B	Founders, Employees and Independent Contractors
B1	List of all founders, employees and independent contractors, and all agreements between the Company and any such person
B2	Copies of employment agreements, independent contractor agreements, consulting agreements, and advisory board agreements
B3	Copies of all proprietary information agreements, including any agreements related to assignment of inventions, work for hire, non-competition and non-solicitation
B4	Copies of any employee benefit plans, stock option plans, commission plans, bonus plans, and deferred compensation plans
C	Intellectual Property
C1	List of all patents, patent applications (including provisional applications), registered trademarks, trademark applications, copyright registrations, and copies of documents related to such items of intellectual property
C2	Copies of all inbound licenses of intellectual property (other than off-the-shelf software products)
C3	Copies of all outbound licenses of intellectual property
C4	List of all persons who have contributed to the creation or development of intellectual property in any manner
C5	List of all domain names used or owned by the Company, website terms of use and privacy policy
C6	Description of any open source software incorporated into products, or plans to use open source software in the future
D	Material Contracts
D1	Copy of any office space lease
D2	Copy of any equipment leases
D3	Copy of any manufacturing agreement, distribution agreement or reseller agreement
D4	Copy of any other agreement that is material to the Company
D5	Copies of any material nondisclosure agreements
E	Litigation and Compliance
E1	Description of all litigation, claims, proceedings, judgments, injunctions, consent decrees or orders against the Company, including any threats thereof, and a

Provided or N/A	Description
E2	description of any claims the Company may have against any third party
E3	List of all material government permits or licenses issued by any governmental agency
E3	Description of any investigation, notice of noncompliance or fine from any governmental agency
F	Other
FI	List of any security interests, liens or encumbrances against the assets of the Company, together with supporting documentation