

**SUMMARY OF PROPOSED TERMS FOR CONVERTIBLE  
PROMISSORY NOTE FINANCING**

The following is a summary of the basic terms and conditions of a proposed convertible promissory note financing of **ABC Startup**, an Oregon Corporation (“**Company**”). This term sheet is for discussion purposes only and is not binding on Company or XYZ Fund an Oregon limited liability company (the “**Investor**”), nor is Company or the Investor obligated to consummate the convertible promissory note financing until a definitive convertible note purchase agreement has been agreed to and executed by Company and the Investor.

- Financing Amount:** The principal amount of \$100,000 in the convertible promissory note (the “**Note**”).
- Closing:** Company and Investor will close the sale of the Note on a date acceptable to Company and the Investor (“**Issue Date**”).
- Definitive Agreement:** The Note will be issued and sold pursuant to a convertible note purchase agreement prepared by Investor’s legal counsel and will contain customary representations and warranties of Company and the Investor (the “**Note Purchase Agreement**”).
- Maturity Date:** The maturity date of the Note will be twenty-four (24) months from the Issue Date (the “**Maturity Date**”).
- Interest:** Simple interest will accrue on an annual basis at the rate of eight percent (8%) per annum based on a three hundred sixty-five (365) day year.
- Conversion to Equity:**
- Automatic Conversion on Qualified Equity Financing:** If the Company issues equity securities in a transaction or series of related transactions resulting in aggregate gross proceeds of at least five hundred thousand dollars (\$500,000), exclusive of conversion of the Note, (a “**Qualified Equity Financing**”), the outstanding principal amount of the Note, plus all accrued interest, shall automatically convert into shares of the equity issued in the Qualified Equity Financing upon its closing at a conversion price equal to the lesser of (i) the price paid by investors in the Qualified Equity Financing, subject to the Discount (as defined below in the Section entitled Discount) and (ii) the price determined by dividing (x) the Valuation Cap (as defined below in the Section entitled Value Cap) by (y) the number of issued and outstanding shares of the Company’s capital stock, but otherwise on the same terms and conditions applicable to the Qualified Equity Financing investors..
- Automatic Conversion on Maturity:** On the Maturity Date, the Note will automatically convert into shares of the Company’s Common Stock, at the Investor’s election, at price per share determined by dividing the outstanding principal amount of the Notes, plus all accrued but unpaid interest, by the quotient obtained by dividing (x) \$1,000,000 by (y) the number of issued and outstanding shares of the Company’s capital stock.
- Discount:** The discount shall be equal to twenty percent (20%) of the price paid by the investors upon a Qualified Equity Financing, (the “**Discount**”).

**Value Cap:** The pre-money value cap shall be equal to 4 million dollars (\$4,000,000) (the “*Value Cap*”).

***Change in Control:  
Or Corporate Transaction  
Payment***

If a Qualified Equity Financing has not occurred and the Company elects to consummate a sale of the Company prior to the Maturity Date (or thereafter if the Note is outstanding), then notwithstanding any provision of the Note to the contrary (a) the Company will give the Investor at least five (5) days prior written notice of the anticipated closing date of such sale of the Company and (b) the Company will pay the Investor an aggregate amount equal to two times the aggregate amount of principal and interest then outstanding under the Note in full satisfaction of the Company’s obligations under the Note.

***Approval Rights:***

Prior to conversion, approval of the Requisite Purchasers shall be required for any of the following:

- a) Corporate Transaction;
- b) Amendments to the Company’s Articles of Incorporation or Bylaws in a manner adverse to the rights of the Purchasers;
- c) Insider transactions (including compensation to employee shareholders) unless approved by a majority of the disinterested outside Directors;
- d) Payment of dividends or other distributions on equity securities, or redemptions thereof, except for the repurchase of shares from employees or other service providers pursuant to board-approved agreements with such employees or other service providers.

Such approval will not be unreasonably withheld.

***Board Observer Rights:***

Investor shall have the right to appoint one (1) Board Observer. Investor will have the right to maintain the board observer position following the Next Equity Financing so long as Investor maintains its pro rata equity position in the Company or voluntarily gives up this right. .

***Participation Rights:***

Investor shall have a pro-rata right, based on their percentage of equity ownership of the Company (assuming conversion or exercise of all convertible and exercisable securities then outstanding) to participate in subsequent issuances of equity securities commensurate with a Next Equity Financing.

***Most Favored Terms:***

Investor will be entitled to receive the benefit of any more favorable terms or conditions that may be provided to other investors in the Company prior to the date that the Note is converted into equity of the Company.

***Pre-Payment:***

The principal and accrued interest may not be prepaid unless approved in writing by Investor.

***Amendment and Waiver:***

The Note Purchase Agreement and the Note may be amended, or any term thereof waived, upon the written consent of Company and the Investor.

***Reports (or Info Rights)***

The Company will be obligated to provide Investor with unaudited annual income statements, annual cap tables, and annual number of full-time equivalent employees.

Investor shall also be entitled to standard inspection and visitation rights. These provisions shall terminate upon the consummation of an initial public offering of the Company's equity securities

***Confidentiality-No Shop***

The Company the Investor agree to keep this term sheet in confidence and not divulge it to any outside party. With the exception of solicitation to investors agreeing to the same terms as outlined in this term sheet, the Company agrees that, through the earlier of (i) 14 days from the date this Term Sheet is executed by the Company and Investor and (ii) the date on which Investor notifies the Company in writing of its intention not to continue to pursue the proposed convertible note, neither the Company nor any director, officer, employee, or agent of the Company will, directly or indirectly, solicit, initiate, entertain or encourage any proposals or offers from any third party relating to the sale of the Company's capital stock or convertible debt (other than customary grants of options or stock to employees or service providers pursuant to the option plan), any merger or consolidation of the Company, the dissolution of the Company or the acquisition of a material portion of the Company's assets or participate in any discussions regarding, or furnish to any person any information with respect to, any such transaction..

***Expenses***

Each party will pay all costs and expenses that it incurs with respect to the transactions contemplated in this Term Sheet, except that, at the Initial Closing, the Company shall pay the reasonable legal and other expenses (not to exceed \$2,500 in the aggregate) incurred by Investor with respect to the transactions contemplated in this Term Sheet