

MEMORANDUM OF TERMS
SERIES AA PERFORMANCE ALIGNED REDEEMABLE CONVERTIBLE PREFERRED
STOCK FINANCING

This memorandum summarizes the principal terms proposed by _____, a Delaware corporation (the “**Company**”), with respect to a private placement of its Series AA preferred stock. This term sheet expires on February 28, 2016.

Proposed Private Placement

The Company proposes a private placement of shares of Series AA convertible preferred stock to a limited number of “accredited” investors on the following terms:

- Number of Series AA Shares Offered:** Up to 8,000 shares.
- Price Per Series AA Share:** \$100 (the “Original Purchase Price”). The Original Purchase Price represents a post-money valuation of \$_____.
- Total Amount of Offering:** Up to \$_____, but not less than \$_____.
- Dividend and Redemption Pool:** The D&R Pool, used for redemption and dividends, will consist of 5% of revenues, recognized on a cash basis during each Redemption Period
- Redemption Price:** When redeemed, Shares will be redeemed at par.
- Distributions and Redemption:** 15 days after the end of each Redemption Period, $\frac{2}{3}$ of the Return Pool will be distributed to used to pay to the shareholders. On the same day, but after the distributions, the remaining $\frac{1}{3}$ of will be used to redeem shares.
- Liquidation Preference:** Upon any voluntary or involuntary liquidation, dissolution or winding-up of the affairs of the Company, the holders of shares or units of Series AA Preferred Stock shall be entitled to be paid out of the assets of the Company legally available for distribution to its members a liquidation preference of the Original Face Value per share or unit that remains outstanding, plus an amount equal to any accrued and unpaid D&R Pool to the date of payment (whether or not declared), before any distribution or payment shall be made to holders of

shares or units of common membership interest or any other class or series of membership interests of the Company ranking junior to the Series AA Preferred Stock as to liquidation rights. In the event that, upon such voluntary or involuntary liquidation, dissolution or winding-up, the available assets of the Company are insufficient to pay the amount of the liquidating distributions on all outstanding shares or units of Series AA Preferred Stock, then the holders of the Series AA Preferred Stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series AA Preferred Stock will have no right or claim to any of the remaining assets of the Corporation. The consolidation or merger of the Company with or into any other corporation, trust or entity or of any other corporation, trust or other entity, or the sale, lease or conveyance of all or substantially all of the property or business of the Company shall be deemed to constitute a liquidation, dissolution or winding-up of the Company. For avoidance of any doubt, no liquidation preference equal to the Original Face Value shall be payable or paid with respect to those shares of the Series AA Preferred Stock that have been redeemed and are no longer issued and outstanding.

Conversion:

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

Board of Directors:

The size of the Company's Board of Directors shall be set at 3. The Board shall initially be comprised of [Founder Name 1] and [Founder Name 2] as representatives of the Common Stock, and [Investor Name] as a representative of the Series AA investors; provided that such Series AA board seat shall terminate in the event that the Series AA

Stockholders do not retain at least 5% of the Company's capital stock calculated on an a fully diluted basis.

Conversion Price Adjustments:

The conversion price of the Series AA shall be subject to broad-based weighted average anti-dilution protection (with customary exceptions) to reduce dilution in the event that the Company issues additional equity securities at a purchase price less than the applicable conversion price.

Voting Rights:

The Series AA will vote together with the Common Stock and not as a separate class except as specifically provided herein or as otherwise required by law. Each share of Series AA shall have a number of votes equal to the number of shares of Common Stock then issuable upon conversion of such share of Series AA.

Protective Provisions:

The consent of holders of at least a majority of the Series A shall be required for any amendment to the Company's Certificate of Incorporation which adversely affects the rights, preferences or privileges of the Series A.

Investor Rights:

Upon the closing of an additional financing round pursuant to which the company grants customary investors rights, the holders of Series AA shares shall be made parties to any investors rights agreement (or similar agreement providing for information, voting, registration, preemptive or similar rights); provided that, each Series AA Holder must execute such agreement and be subject to the terms of such agreement in the same manner as other investors and such right shall terminate following the company's closing of additional equity investments of more than \$750,000 (a "Qualified Financing")

Information Rights:

The Company shall provide in a reasonable timeframe to each Investor annual financial statements.

Right of First Refusal:

Investors shall have the right in the event the Company proposes to offer equity securities to any person (other than securities issued to employees, officers and directors of the Company, securities issued pursuant to a merger or acquisition, securities issued in connection with an equipment leasing or debt financing, securities issued pursuant to a registration statement, or securities issued in connection with strategic transactions) to purchase their pro rata portion of such shares. Each Investor's pro rata portion shall be calculated by dividing the outstanding shares of Series AA held by such investor by the total number of shares outstanding on a fully-diluted basis. Such right of first refusal will terminate upon a Qualified IPO or upon an acquisition, merger or consolidation of the Company and may be waived, modified or terminated on behalf of all Investors by a majority in interest of the Investors. Such right may be terminated, waived or modified in any manner by a majority of the Series AA Preferred and shall terminate following a Qualified Financing.

Expenses:

Each party shall pay their own fees and expenses.

Capitalization

Set forth below is the Company's current fully diluted capitalization, as adjusted to reflect the sale of all shares of Series AA preferred stock proposed to be offered in this financing:

The investment shall be made pursuant to a subscription agreement and other documentation reasonably acceptable to the Company and the investors. The term sheet is not legally binding on any parties and is subject to the satisfactory completion of due diligence and the execution of mutually agreed upon definitive documents.