



Term Sheet for Alliance of Angels Bridge Financing

This Term Sheet is for use by Alliance of Angels members in negotiating bridge financing deals. Each party should seek appropriate legal counsel before finalizing any Term Sheet or investment documents. This Term Sheet does not create a legally binding obligation on any person or entity.

Issuer	<<Issuer Name>> (the “ Issuer ” or “ Company ”)
Location	<<Issuer Address>>
Type of Entity	<<State of Incorporation>> <<Entity Type>>
Security	Convertible Promissory Notes (each a “ Note ” and together the “ Notes ”). The Notes shall be unsecured general obligations of the Issuer, substantially in the form attached hereto as Annex A .
Amount of Financing	Up to a total of <<\$XXXXXX>>, with a minimum individual investment amount of \$25,000 (unless a lower minimum investment amount is approved by the Issuer).
Purchasers	Various members of the Alliance of Angels, who are Accredited Investors acting on their own account, and/or other Accredited Investors only (as defined in SEC Rule 501).
Interest Rate	Eight percent (8.0%) per annum compounded annually (365-day basis).
Maturity Date	18 months from the date of issuance
No Prepayment	The Issuer may not pre-pay the Note in whole or in part without the Holder’s prior written consent.
Voluntary Conversion at the Maturity Date	At Maturity, holders of Notes owning together can elect by simple majority or more of the aggregate principal amount of the Notes to (1) extend the Maturity Date with a 5% increase in the discount rate interest accruing thereafter at the Interest Rate, (2) extend the Maturity Date with interest accruing thereafter at the Default Rate, or (3) convert the outstanding principal

	amount plus accrued and unpaid interest under the Note into a number of shares of the Issuer's Common or Preferred Stock equal to the quotient obtained by dividing (i) the outstanding principal amount plus any accrued and unpaid interest by (ii) the Voluntary Conversion Price (as defined below).
Voluntary Conversion Price	If convertible into Common Stock, the Quotient obtained by dividing (i) [PRE-MONEY VALUATION] by (ii) the number of the Issuer's fully-diluted shares, or if convertible into Preferred Stock, the Original Issue Price of the class or series of such stock.
Automatic Conversion upon a Qualified Financing	In the event of a Qualified Financing (as defined below), the outstanding Principal Amount and accrued interest under the Notes will automatically convert into shares of the same series of Preferred Stock as is issued in the Qualified Financing at a conversion price equal to the lesser of: <ul style="list-style-type: none"> (i) the price per share paid in the Qualified Financing, multiplied by the applicable Conversion Percentage; or (ii) the price obtained by dividing the (a) [VALUATION CAP] by (b) the Issuer's fully-diluted number of shares, calculated immediately prior to the initial closing of the Qualified Financing. <p>The Valuation Cap is subject to increase to the extent Notes are issued after six months from the date of issuance of the first Note.</p>
Conversion Percentage	The Conversion Percentage shall initially be eighty percent (80%).
Qualified Financing	A preferred stock financing after the Note's date of issuance with at least \$1,500,000 of new invested capital (excluding the Notes and any other outstanding debt securities, including convertible debt securities, issued by the Issuer) or a preferred stock financing of a lesser amount if approved in writing by the holders of Notes owning together two-thirds or more of the aggregate principal amount of the Notes (the "Majority Holders").
Acquisition	Immediately prior to the closing of a merger, share exchange, consolidation, acquisition of all or substantially all of the assets or stock, reorganization or liquidation of the Issuer that results in the stockholders of the Issuer immediately prior to such transaction owning less than 50% of the voting capital stock of the Issuer (or its successor or parent corporation) immediately after the transaction or, in the case of a sale of assets or liquidation, the Issuer owning after the transaction less than substantially all of the assets owned by the Issuer prior to the transaction (other than an issuance of equity securities for the primary purpose of raising capital) [or any other event that constitutes a "Deemed Liquidation Event" under the Company's articles/certificate of incorporation] (an "Acquisition") that occurs prior to the payment in full or

	<p>conversion of the Note, the Note holder may elect to either:</p> <ul style="list-style-type: none"> (i) convert the outstanding principal amount and accrued interest into shares of Company stock at a conversion price per share equal to the Voluntary Conversion Price (calculated immediately prior to the closing of the Acquisition); or (ii) accelerate the Maturity Date to the date of closing of the Acquisition transaction and thereupon the Issuer shall be obligated to pay holder an amount equal to 2x the outstanding principal amount in full satisfaction of its obligations.
Default	<p>If the Issuer suffers an Event of Default (as defined below), the Holder may declare the Notes in default and immediately due and payable in full upon written notice to the Issuer. From that date forward, the Note will bear interest at a rate of the lower of (i) the sum of the Interest Rate plus twelve percent (12%) per annum or (ii) the highest rate allowed by applicable law, until paid in full or converted.</p> <p>An Event of Default will occur if the Issuer:</p> <ul style="list-style-type: none"> (i) fails to pay when due any principal or interest payment on the due date hereunder, and such payment shall not have been made within five (5) days of the Issuer's receipt of the Holder's written notice to the Issuer of such failure to pay; (ii) materially breaches any other covenant contained in this Note and such failure continues for fifteen (15) days after the Issuer receives written notice of such material breach from the Holder; (iii) voluntarily files for bankruptcy protection or makes a general assignment for the benefit of creditors; or (iv) is the subject of an involuntary bankruptcy petition and such petition is not dismissed within sixty (60) days.
Information Rights	<p>Company will deliver to Holder all information provided to stockholders of the Company in their capacity as such and, upon Holder's request, any information a stockholder of the Company would be entitled to receive by law or under the charter documents of the Company. So long as the Note is outstanding, the Company will deliver to such holder</p> <ul style="list-style-type: none"> (a) annual unaudited financial statements within ninety (90) days following year-end and annual audited statements, if any, within ten (10) days of completion; and (b) quarterly unaudited financial statements within sixty (60) days following quarter-end. (c) a listing of all note holders, outstanding principle & interest, and

	<p>their contact information</p> <p>All information rights shall terminate when the Note is paid in full or converted. If the Note is converted into shares noteholders will receive information rights consistent with purchasers of similar number of shares in a financing round. All Noteholders would agree to customary confidentiality provisions for any such information.</p>
Company Agreements	<p>The Company will covenant and agree that it is a “qualified small business corporation” for purposes of Section 1202 of the Internal Revenue Code and the rules and regulations thereunder (a “QSBC”) and that that the shares issuable on conversion are eligible for the gain exclusion provided by Section 1202 if the holding period and other requirements are met by the investor.</p>
Governing Law	<p>The Notes will be governed and construed in accordance with the laws of the State of Washington. The exclusive jurisdiction and venue for any dispute arising from this Term Sheet or the Notes will be the state and federal courts in King County, Washington.</p>
Expenses	<p>Each party shall be responsible for its own costs and expenses incurred in connection with the transactions contemplated hereby.</p>
Not an Offer	<p>This Term Sheet is not a complete description of the financing and does not constitute either an offer to sell or an offer to purchase securities.</p>

ANNEX A

FORM OF CONVERTIBLE PROMISSORY NOTE