

TERM SHEET

For Preferred Stock Financing

Date: [INSERT DATE]

CONFIDENTIAL - FOR DISCUSSION PURPOSES ONLY

COMPANY INFORMATION

Company Name:	[COMPANY NAME]
State of Incorporation:	[STATE/COUNTRY]
Address:	[COMPANY ADDRESS]
Website:	[COMPANY WEBSITE]

INVESTOR INFORMATION

Lead Investor:	[LEAD INVESTOR NAME]
Investor Type:	[VC Firm / Angel Investor / Corporate VC]
Additional Investors:	[OTHER INVESTORS, IF ANY]

INVESTMENT OVERVIEW

Investment Amount:	[\$[AMOUNT]]
Security Type:	Series [A/B/C] Preferred Stock
Pre-Money Valuation:	[\$[PRE-MONEY VALUATION]]
Post-Money Valuation:	[\$[POST-MONEY VALUATION]]
Price Per Share:	[\$[PRICE PER SHARE]]
Number of Shares:	[NUMBER OF SHARES]

KEY TERMS AND CONDITIONS

1. Valuation and Investment

The investment will be made through the purchase of Series [] Preferred Stock at a pre-money valuation of \$[]. The investment will be in the amount of \$[], resulting in a post-money valuation of \$[].

2. Dividend Provisions

The holders of Preferred Stock shall be entitled to receive [non-cumulative/cumulative] dividends at the rate of []% of the Original Purchase Price per annum, when and if declared by the Board of Directors. Dividends on Preferred Stock shall be in preference to any dividends on Common Stock.

3. Liquidation Preference

In the event of any liquidation, dissolution, or winding up of the Company, the holders of Preferred Stock shall be entitled to receive, in preference to holders of Common Stock:

- [1x/2x/3x] the Original Purchase Price plus declared but unpaid dividends (the "Liquidation Preference")
- OR participate with Common Stock on an as-converted basis, whichever is greater [participating preferred]
- OR just the Liquidation Preference [non-participating preferred]

A merger, acquisition, or sale of substantially all assets shall be deemed a liquidation event.

4. Conversion Rights

Each share of Preferred Stock is convertible at any time, at the option of the holder, into shares of Common Stock. The initial conversion rate shall be 1:1, subject to anti-dilution adjustments.

Automatic conversion of all Preferred Stock into Common Stock will occur upon:

- The closing of a firm commitment underwritten public offering with aggregate proceeds of at least \$[] million and a price per share of at least []x the Original Purchase Price, OR
- The consent of holders of []% of the outstanding Preferred Stock

5. Anti-Dilution Protection

The conversion price of the Preferred Stock will be subject to adjustment on a [broad-based weighted average / full ratchet / narrow-based weighted average] basis to prevent dilution in the event the Company issues additional securities at a purchase price less than the applicable conversion price.

6. Voting Rights

Preferred Stock shall vote together with Common Stock on an as-converted basis, except:

- Election of [] Board members exclusively by Preferred Stock holders
- Protective provisions requiring Preferred Stock approval for certain corporate actions

GOVERNANCE AND CONTROL

7. Board of Directors

The Board shall consist of [] members:

- [] member(s) designated by Preferred Stock holders
- [] member(s) designated by Common Stock holders (founders)
- [] independent/outside member(s) mutually agreed upon

Board observers: [Specify any non-voting observer rights]

8. Protective Provisions

For so long as []% of the Preferred Stock remains outstanding, the Company shall not, without approval of holders of at least []% of the Preferred Stock:

- Amend the Certificate of Incorporation or Bylaws
- Authorize or issue any equity security senior to or on parity with Preferred Stock
- Purchase or redeem any shares of capital stock
- Declare or pay any dividend
- Change the authorized size of the Board
- Consummate any merger, sale of assets, or other liquidation event
- Incur indebtedness in excess of \$[]
- Make any investment or acquisition in excess of \$[]

9. Information Rights

Investors holding at least []% of Preferred Stock shall receive:

- Annual audited financial statements within [90/120] days of fiscal year end
- Quarterly unaudited financial statements within [30/45] days of quarter end
- Monthly financial reports within [15/30] days of month end
- Annual operating budget at least [30] days before fiscal year end
- Inspection rights and access to Company facilities upon reasonable notice

10. Pro Rata Rights

Major Investors (those holding at least []% of Preferred Stock) shall have the right to participate in subsequent equity financings to maintain their percentage ownership in the Company, subject to standard exceptions.

ADDITIONAL TERMS

11. Redemption Rights

[At the election of holders of []% of Preferred Stock, beginning [5] years after Closing, the Company shall redeem the Preferred Stock in [three] equal annual installments at the Original Purchase Price plus declared but unpaid dividends.]

[OR: No redemption rights]

12. Registration Rights

Demand Rights: Holders of []% of Preferred Stock may require the Company to register their shares for public sale on [] occasions, subject to standard conditions.

Piggyback Rights: Investors shall have the right to include their shares in any registration statement filed by the Company, subject to underwriter cutbacks.

S-3 Rights: Investors holding at least []% of Preferred Stock may require up to [two] S-3 registrations per year once the Company is eligible.

Lock-up: Investors agree to a standard [180-day] lock-up in connection with the Company's IPO.

13. Management and Employee Matters

Employee Stock Option Pool: The Company shall reserve []% of post-financing fully-diluted capitalization for issuance to employees, consultants, and advisors.

Vesting: All founder shares shall vest over [4] years with a [1-year] cliff. All employee options shall vest over [4] years with a [1-year] cliff.

Key Person Insurance: The Company shall obtain key person life insurance on [Founder Name(s)] in the amount of \$[].

14. Drag-Along Rights

If holders of []% of Preferred Stock and []% of Common Stock approve a sale of the Company, all stockholders shall be required to consent to and participate in such sale on the same terms and conditions.

15. Right of First Refusal and Co-Sale

Investors shall have a right of first refusal and co-sale right with respect to any proposed transfer of Common Stock by founders and key employees, subject to standard exceptions.

CONDITIONS AND LEGAL TERMS

16. Conditions to Closing

The investment shall be subject to:

- Satisfactory completion of legal, financial, and technical due diligence
- Execution of definitive investment agreements acceptable to investors and the Company
- Delivery of all required corporate resolutions and consents
- Receipt of legal opinions satisfactory to investors
- Key employees and founders entering into employment agreements, proprietary information and invention assignment agreements, and non-compete agreements
- [Minimum investment amount of \$[___] raised in this round]

17. Exclusivity / No Shop

The Company agrees that for [30/45/60] days from the date of this term sheet, it will not, directly or indirectly:

- Solicit, encourage, or participate in discussions regarding any financing or sale transaction with any party other than the Investors
- Provide information to any other party in connection with a financing or sale transaction
- Enter into negotiations, agreements, or understandings with respect to any such transaction

18. Expenses

The Company shall pay the reasonable legal fees and expenses of the Investors, up to \$[___], in connection with this transaction, regardless of whether the transaction is consummated.

19. Confidentiality

The terms of this term sheet shall be kept confidential by both parties and shall not be disclosed to any third party (other than the parties' respective legal and financial advisors) without prior written consent, except as required by law.

20. Binding Provisions

This term sheet is intended to outline the principal terms of a potential investment. Except for the provisions relating to Exclusivity/No Shop, Expenses, and Confidentiality (which are binding), this term sheet does not constitute a binding agreement and is subject to execution of definitive agreements containing the terms described herein, along with other customary terms and conditions.

21. Governing Law

This term sheet and any definitive agreements shall be governed by the laws of [State/Country] without regard to conflicts of law principles.

SIGNATURES

This Term Sheet sets forth the key terms for a potential investment in the Company. Both parties acknowledge that this is a non-binding summary (except for the binding provisions noted above) and that definitive agreements will be required to consummate the transaction.

COMPANY:

[Company Name]

By: _____

[Name and Title]

Date: _____

LEAD INVESTOR:

[Investor Name]

By: _____

[Name and Title]

Date: _____

before using or negotiating any term sheet.