**Series B Preferred - Sample Term Sheet**

September 26, 200X

THE TERMS SET FORTH BELOW ARE SOLELY FOR THE PURPOSE OF OUTLINING THOSE TERMS PURSUANT TO WHICH A DEFINITIVE AGREEMENT MAY BE ENTERED INTO AND DO NOT AT THIS TIME CONSTITUTE A BINDING CONTRACT, EXCEPT THAT BY ACCEPTING THESE TERMS THE COMPANY AGREES THAT FOR A PERIOD OF 30 DAYS FOLLOWING THE DATE OF SIGNATURE, PROVIDED THAT THE PARTIES CONTINUE TO NEGOTIATE TO CONCLUDE AN INVESTMENT, THEY WILL NOT NEGOTIATE OR ENTER INTO DISCUSSION WITH ANY OTHER INVESTORS OR GROUP OF INVESTORS REGARDING THIS "SERIES X" ROUND OF INVESTMENT. AN INVESTMENT IN THE COMPANY IS CONTINGENT UPON, AMONG OTHER THINGS, COMPLETION OF DUE DILIGENCE AND THE NEGOTIATION AND EXECUTION OF A SATISFACTORY STOCK PURCHASE AGREEMENT**.**

***I. Issuer:*  Newco Inc.**

(Hereinafter referred to as the "Company")***.***

***II. Investor:* Venture Capital Partners, LLC or its affiliates ("VC")** and other investors acceptable to the Company and VC (collectively the "Investors")

***III. Security:*** Series X Preferred Stock ("Preferred")

***IV. Amount of Investment:*** $[           ]

***V. Valuation:*** Pre money valuation is $[           ]

***VI. Post-Investment Ownership:***

The company would be capitalized such that post investment ownership at closing would be as follows:

VC [                ]%
Founders, Management & Other [              ]%
Option Pool [              ]%

***VII. Closing Date:***

Closing for the investment would be on or before \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, provided that all requirements for the closing have been met or expressly waived in writing by the Investors.

***VIII. Board Representation:***

The Board of Directors will include a total of five (5) people. Holders of Series X Convertible Preferred Stock are entitled to two (2) representatives on the Company's Board of Directors. Common Shareholders will have three (3) designees to the board, one of which must be the CEO of the Company. Board of Directors meetings would be scheduled on a monthly basis until such time as the Board of Directors votes to schedule them less frequently.

VC’s representative would be appointed to all Board Committees (including the compensation committee), each of which would consist of three (3) members. The Company would reimburse each Director's reasonable expenses incurred in attending the board meetings or any other activities (e.g., meetings, trade shows) which are required and/or requested and that involve expenses.

***IX. Proprietary Information and***

***Inventions Agreement:***

Each officer, director, and employee of the Company shall have entered into a proprietary information and inventions agreement in a form reasonably acceptable to the Company and the Investors. Each Founder and other key technical employee shall have executed an assignment of inventions acceptable to the Company and Investors.

**DESCRIPTION OF SERIES B PREFERRED**

***X. Dividends:***

An [  ]*%* annual dividend would accrue as of the closing date to holders of the Series X Convertible Preferred. Accrued dividends would be payable (a) if, as and when determined by the Company's Board of Directors, (b) upon the liquidation or winding up of the company, or (c) upon redemption of the Series X Preferred. Upon an automatic conversion, accrued but unpaid dividends would be forfeited. No dividends may be declared and/or paid on the Common Stock until all dividends have been paid in full on the Convertible Preferred Stock. The Convertible Preferred Stock would also participate *pari passu* in any dividends declared on Common Stock. Dividends will cease to accrue in the event that the Investor converts its holdings to Common Stock.

***XI. Liquidation Preference:***

In the event of any liquidation or winding up of the Company, the Series X Preferred will be entitled to receive in preference to the holders of Common Stock an amount per share equal to their Original Purchase Price plus all accrued but unpaid dividends (if any).

The Series X Preferred will be participating so that after payments of the Original Purchase Price and all accrued dividends to the Preferred, the remaining assets shall be distributed pro-rata to all shareholders on a common equivalent basis.

A merger, acquisition or sale of substantially all of the assets of the Company in which the shareholders of the Company do not own a majority of the outstanding shares of the surviving corporation shall be deemed a liquidation of the Company.

***XII. Conversion:***

The Preferred will have the right to convert Preferred shares at the option of the holder, at any time, into shares of Common Stock at an initial conversion rate of 1-to-1. The conversion rate shall be subject from time to time to anti-dilution adjustments as described below.