

[STARTUP NAME]

**CONVERTIBLE NOTE TERM SHEET**

This is a summary of the principal terms of (i) a restructuring of [Startup Name] so that it is a wholly-owned subsidiary of a Delaware limited liability company ("Company"), followed by (ii) a convertible note financing of the Company led by Canary Fund (the "Lead Investor"). This term sheet is an expression of intent only and, except as set forth under "Confidentiality," is not meant to be binding on the parties.

**Restructuring**

**Formation of Delaware LLC** The Company will be organized as a newly formed Delaware limited liability company.

**Exchange of Quotas for Common Units** The founders of [Startup Name] will exchange their quotas in [Startup Name] for an equivalent number of Common Units issued by the Company, so they continue to own the same percentage of the equity in the Company as they did in [Startup Name]. Similarly, all other security holders of [Startup Name] shall exchange their securities for equivalent securities issued by the Company. This results in [Startup Name] becoming a wholly owned subsidiary of the Company (except to the extent that applicable law requires the founders to retain one quota).

**Financing Terms**

**Securities to Be Issued** The Company will issue unsecured, convertible promissory notes ("Notes") in exchange for amounts loaned by the investors.

**Financing Amount**

Lead Investor:	\$ _____
Other investors:	up to \$ _____
Total:	up to \$ _____

**Closing** The Company may close the sale of the Notes (as defined below) in multiple closings, provided that an aggregate of at least \$\_\_\_\_\_ shall be raised at the initial closing. The initial closing shall occur on or before \_\_\_\_\_, 20\_\_, and the final closing shall take place not later than three (3) months after the initial closing.

**Maturity Date** Principal and unpaid accrued interest on the Notes will be due and payable twenty-four (24) months after the initial closing date (the "Maturity Date").

**Interest Rate** Interest shall accrue on an annual basis at the rate of 5% per annum, payable upon the Maturity Date.

**Conversion of Notes** Each Note shall automatically be converted into units of the Company issued in the first equity financing closing after the initial closing date resulting in aggregate gross proceeds to the Company of at least \$1.0 million, excluding conversion of any of the Notes (the "Next Equity Financing;" such conversion, a "Financing Conversion"). If the Next Equity Financing has not closed by the Maturity Date, at the option of the holders of a majority in interest of the Notes, the Notes may be converted into Common Units of the Company (a "Maturity Conversion").

Upon a Financing Conversion, the Lead Investor will be entitled to the same rights, preferences and privileges as the other investors purchasing equity securities in the Next Equity Financing, including any rights granted to holders of a minimum amount of units of in the Company (i.e., "major investors"), regardless of the number of units by the Lead Investor.

**Conversion Price** The conversion price of the Notes with respect to a Financing Conversion shall be the lesser of (i) a 20% discount to the lowest cash price per unit paid by investors in the Next Equity Financing or (ii) the price obtained by dividing a \$\_\_\_\_\_ million valuation (the "Valuation Cap") by the Company's fully diluted pre-money capitalization immediately prior to the Next Equity Financing). The conversion price of the Notes with

respect to a Maturity Conversion shall be the Valuation Cap divided by the Company's fully diluted pre-money capitalization on the Maturity Date.

**PrePayment**

The principal and accrued interest may not be prepaid unless approved in writing by the holders of a majority in interest of the Notes.

**Acquisition Event**

If the Company is merged with or otherwise acquired by another entity (an "Acquisition Event") prior to the Next Equity Financing, then at the option of the holders of a majority in interest of the Notes, either (i) the Company shall repay the outstanding principal and accrued interest on the Notes, plus a repayment premium of 200% of the original principal amount of the Notes, or (ii) the Notes may be converted into Common Units of the Company at a conversion price equal to the Valuation Cap divided by the Company's fully diluted pre-money capitalization immediately before the Acquisition Event.

**Lead Investor Rights**

**Information Rights**

The Company will provide the Lead Investor with quarterly reports on its operations, including financial statements and key performance indicators (KPIs) to be agreed upon by the Company and the Lead Investor.

**Option to Sell**

Following a conversion of the Notes, the Lead Investor will have the option to sell at any time its units of the Company back to the Company, at an aggregate purchase price of USD \$1.00.

**Pro Rata Rights**

The Lead Investor will have a pro rata right, but not an obligation, to participate in the Next Equity Financing based on its percentage equity ownership after giving pro forma effect to the conversion of the Notes in the Next Equity Financing. The Lead Investor may apportion its pro rata right among itself, its partners and its affiliates.

**Founder Vesting**

The founders' Common Units will vest as follows: after 12 months of service following the initial closing, 25% will vest; the remainder will vest monthly over the following 36 months.

**Additional Debt**

The Company will agree not to incur any other indebtedness, including any other convertible notes, without the prior written approval of the holders of a majority in interest of the Notes.

**Option Pool**

If the Company agrees to create an option pool in connection with the Next Equity Financing, the units reserved for such pool will be included in the Company's pre-money capitalization when determining the price per unit in the Next Equity Financing, unless otherwise agreed by the Lead Investor.

**Confidentiality**

[Startup Name] and the Lead Investor will not, without the prior written consent of the other party, disclose this term sheet or their discussions regarding the Notes to any third party, except to the extent required by law.

This term sheet is non-binding and is intended solely as a summary of the terms that are currently proposed by the parties. Except as set forth above under the caption "Confidentiality," which is a legally binding paragraph, the parties acknowledge that they neither intend to enter, nor have they entered, into any agreement to negotiate a definitive agreement pursuant to this term sheet, and either party may, at any time prior to execution of such definitive agreement, propose different terms from those summarized herein or unilaterally terminate all negotiations pursuant to this term sheet without any liability whatsoever to the other party.

**[STARTUP NAME]**

**CANARY FUND**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

