



THIS TERM SHEET DOES NOT CONSTITUTE AN OFFER TO SELL  
OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES

[COMPANY NAME], INC

PROPOSED TERMS FOR CONVERTIBLE PROMISSORY NOTE

Principal terms and conditions proposed by Small Enterprise Growth Fund DBA Maine Venture Fund ("MVF") regarding an investment in [Company Name] Inc. ("Company").

- AMOUNT: \$XXX in convertible promissory notes ("Notes"), including \$XX from MVF ("Lead Investor"), with a minimum investment amount to close of \$XXX. This offering is limited to participation by "accredited investors".
- CLOSING: Initial Closing within sixty (60) days following the Company's acceptance of this Term Sheet to be conducted concurrently for all purchasers. Final Closing within thirty (30) days following Initial Closing, to be conducted on a rolling basis.
- VALUATION CAP: Valuation cap of \$XXM.
- USE OF FUNDS: Working capital.
- SUBORDINATION OF EXISTING DEBT TO FOUNDERS: Any obligations to the Founders will be subordinate to these Notes, and will be subject to a standstill until these Notes are satisfied in full, or redeemed.
- SOCIAL RESPONSIBILITY: The Company's Board shall adopt a resolution requiring Company Management to report to the Board, at least annually, highlights of the company's efforts to promote social responsibility in the workplace.
- DEFINITIVE AGREEMENT: The Notes will be issued and sold pursuant to a convertible note purchase agreement prepared by legal counsel and will contain customary representations and warranties of the Company and the Investors (the "Note Purchase Agreement"). All existing corporate documents (e.g. Operating Agreement) will be amended as necessary.
- MATURITY DATE: Principal and unpaid accrued interest on the Notes will be due and payable 18 (eighteen) months from the date of the Note Purchase Agreement (the "Maturity Date"). In the case of default, interest to increase by 1% per month on any principal amount still outstanding beginning 30 days after the Maturity Date.

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| INTEREST:             | Simple interest will accrue on an annual basis at the rate of 6% per annum based on a 365-day year, and be paid on maturity date.  |
| CONVERSION TO EQUITY: | <p><b>Mandatory Conversion.</b> If the Company issues Board-approved equity securities ("Equity Securities") in a transaction or series of related transactions resulting in aggregate gross proceeds to the Company of at least \$1,000,000, excluding conversion of the principal amount of the Notes principal and interest converted (a "Qualified Financing"), then the Convertible Notes, and any accrued but unpaid interest thereon, will automatically convert into the equity at a price (the "Conversion Price") equal to the lesser of the following: (i) 80% of the lowest price per share paid by the investors purchasing Equity Securities in the Qualified Financing (the "Discount"); or (ii) the number equal to (A) \$X,XXX,000 (the "Valuation Cap") divided by (B) the number of shares of the Company outstanding (calculated on a fully-diluted basis assuming full exercise of all outstanding options and warrants to purchase capital stock of the Company and full conversion of all securities convertible into Equity Securities. The resulting number of shares issued to the Investor will be equal to the value of the Notes and any accrued but unpaid interest thereon divided by the Conversion Price.</p> <p><b>Voluntary Conversion or Extension at the Maturity Date.</b> If the Notes have not been previously converted pursuant to a Qualified Financing, then, effective upon the Maturity Date, the Requisite Holders (as defined below) may elect to either a) convert each of the Notes and any accrued but unpaid interest thereon into shares of the Company's most senior class of stock at the Conversion Price or, if not applicable, the Valuation Cap; or b) extend the Maturity Date to a date acceptable to the Company with a 5% increase of the Discount for each additional six (6) month increment. Any election to convert the Notes pursuant to this paragraph will be made in writing and delivered to the Company at least five days prior to the Maturity Date.</p> <p><b>Sale before Maturity Date.</b> If a Qualified Financing has not occurred and the Company elects to consummate a Sale of the Company (as defined below) prior to the Maturity Date, then notwithstanding any provision of the Notes to the contrary, each Investor shall have a right to immediately (i) demand payment of 2 times the unpaid principal amount of his or her Note together with all accrued interest, or (ii) convert the principal amount of his or her Note together with all accrued interest into shares of the Company's most senior class of stock at the Conversion Price. A "Sale of the Company" shall mean the sale, conveyance, or other disposition by the Company of all or substantially all of its property or business or merger with or into or consolidation with any other entity.</p> |
| PRE-PAYMENT:          | This Note, including any accrued but unpaid interest, may not be pre-paid unless by written consent of at least 2/3 of Noteholders.  |

GOVERNANCE: Board shall consist of 5 directors, of whom 2 shall be elected by Noteholders, 2 shall be designated by the Common Shareholders and the final (5th) seat to be selected by the first four directors and appointed by a vote of the all shareholders and Noteholders voting on an as-converted basis. In addition, MVF will have observer rights for Board meetings, including the right to receive materials as and when sent to Board members.

The three directors not appointed by Common Shareholders must be "independent directors". A director will not be considered independent if he/she or an immediate family member or a related or affiliated entity, is an employee of, or has business dealings with, the Company (other than the Founder).

Once fully seated, the board will choose, from among its members, a chairperson, who is not also an employee of the Company.

The board shall appoint from among its members a compensation committee that does not include management directors, and an audit committee.

The board of directors shall meet at least quarterly, and hold interim board update calls between each meeting.

The Company will indemnify all members of the Board of Directors to the fullest extent permissible by law.

CONSENT OF  
DIRECTORS:

Consent of majority of Board of Directors, which majority includes affirmative vote of at least one Series A Director, required to:

1. Approve an annual budget for the Company;
2. Establish or increase the compensation of any executive officer
3. Adopt or amend any option or other equity incentive plan
4. Declare or pay any dividend;
5. Grant any shares, options or equity incentive to any officer, employee, Director of, or consultant to the Company
6. Incur any indebtedness in excess of \$25,000, excluding trade payables incurred in the ordinary course of business consistent with past practice;
7. Loan money to or own shares in any subsidiary or other company or entity;
8. Make an expenditure in excess of \$25,000, excluding expenditures to trade vendors incurred in the ordinary course consistent with past practice;
9. Enter into any transactions, the nature of such transactions to be appropriately defined in the definitive agreement, with directors, officers, employees, consultants or membership interest holder of the Company or their affiliates
10. Hire any VP or CXO level staff
11. Guaranty the obligations or liabilities of any person or entity;

12. Make any investment other than investments in prime commercial paper, money market funds or certificates of deposit, in each case having a maturity not in excess of two years;
13. Sell, assign, license, pledge or encumber intellectual property, other than licenses granted in the ordinary course of business.

INFORMATION  
RIGHTS:

All Noteholders (including MVF) shall receive:

- (1) Quarterly, within 30 days of the last day of the quarter:
  - a. Financial statements including balance sheet, accrual-based profit and loss, and statement of cash flows, including a comparison to budget and prior period
  - b. Written management reports, with progress on Board approved Key Performance Indicators.
- (2) Annually, within 30 days before the last day of the year:
  - a. An updated capitalization table
  - b. A Board-approved budget (pro-forma balance sheet and P&L by month) for the following year

MVF shall receive:

- (3) Annually, within 30 days of the last day of the year:
  - a. The Company's FTE count, both in and out of Maine
  - b. Anonymized race and gender demographics of Company leadership (Director, VP and C-Suite)
  - c. List of employee benefits offerings
  - d. Average employee salary
  - e. Total amount of equity capital raised by Company to date

BACKGROUND  
CHECKS:

The Company agrees that founder and other management team members will cooperate with background checks as MVF may request, and that the results of such background checks may be shared with the Company's Chief Executive Officer and/or Board at MVF's sole discretion.

INSURANCE:

The Company shall obtain Directors and Officers liability insurance and Key Person life insurance (for Principals), each in an amount not less than \$1 million, within 60 days of closing.

DISPUTE  
RESOLUTION:

The Company shall resolve legal disputes with the following escalation structure, as needed: first, direct negotiation with counterparty; second, mediation; third, arbitration. Any dispute resolution activity to take place in the state of Maine.

EMPLOYEE  
AGREEMENTS:

Prior to the Initial Closing, each VP and CXO level employee, and consultants (as necessary), will enter into the following Agreements:

- a) Non-disclosure
- b) Non-solicitation
- c) Assignment of inventions and intellectual property

ASSIGNMENT OF PATENTS:

Prior to the Closing, all patents, patent applications, trade secrets and other intellectual property rights within the field of the Company's business which have been developed by the Founders will be assigned to the Company without payment by the Company, and any rights of third parties to such intellectual property shall have been released.

The Founders shall disclose all other patents, patent applications, and other intellectual property rights which they own or have any interest in prior to the closing.

RIGHT TO CONDUCT ACTIVITIES:

Professional investment organization (MVF included) shall not be liable to the Company for any claim arising out of engagement with competitors of the Company.

AMENDMENT AND WAIVER:

The Note Purchase Agreement and the Notes may be Amended, or any term thereof waived, upon the written consent of the Company and MVF.

NO SECURITY INTEREST:

The Notes will be a general unsecured obligation of the Company.

FEES AND EXPENSES:

The company will pay the expense of MVF counsel up to a cap of \$7,500.

SSBCI:

MVF intends to invest funds derived from the US Treasury State Small Business Credit Initiative ("SSBCI") in order to enable additional private capital investment. To qualify, the Company will be asked to submit information to MVF, including information regarding coinvestors.

EXPIRATION:

This Term Sheet expires on June xx, xxxx if not accepted by the Company by that date.

This offer is made in reliance on the materials and information given to the purchasers, and is expressly conditioned on satisfactory completion of due diligence and mutually satisfactory documentation of the transaction. The purchasers reserve the right to terminate this offer, in its discretion, and therefore this Term Sheet is not intended to be binding upon or enforceable by any party.

Lead Investor:

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Joe Powers, Managing Director, Maine Venture Fund

Date

Company:

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[CEO Name], CEO, [Company Name]

Date