[Company Name] Term Sheet

Dear < >:

This letter sets forth the general terms on which [the interested members of Rochester Angel Network, or LLC name, and/or other managed funds, and/or affiliates], as listed in Exhibit A (the "Investors"), intend to purchase certain securities of [Company Name] (the "Company") with a total face value equal to $________ (the "Investment"), subject to the following general terms, conditions and qualifications:

1. The Investors shall purchase and the Company shall issue and sell ______ shares of Series A Redeemable Convertible Participating Preferred Stock (the "Series A Preferred Stock"), which shall have the terms set forth in EXHIBIT A attached hereto.

2. The Investment shall be for a total of $_______, payable in cash to the Company upon the closing of the purchase of the Series A Preferred Stock (the "Closing").

3. Closing. The Closing is expected to occur on or about _____________.

4. Use of Proceeds. The Company shall use the net proceeds from the Series A Preferred Stock for _________________, and [working capital and general corporate purposes; to execute the current business plan.]

5. Conditions to Closing. The Closing shall be subject to the following conditions, any of which may be waived by the Investors at their sole discretion:

   (a) receipt of all information reasonably requested by the Investors and the satisfactory completion by the Investors and their accountants, attorneys and other representatives of a due diligence review of the Company covering its business, including all operational, financial, intellectual property, and other areas;

   (b) **a** copy of the Company's then current business plan reasonably estimating revenues of not less than $___________ and an operating loss of not greater than $________ for the fiscal year ended _______________, shall have been received by and reviewed to the satisfaction of the Investors;

   (c) immediately prior to the closing of the sale of the Series A Preferred Stock (the "Closing") and after giving effect to the conversion of any notes or debt outstanding at the Closing, the Company's total issued and outstanding shares of capital stock, on a fully-diluted, as-converted basis, shall consist of ________ shares of Common Stock;

   (d) ______________ shall have entered into employment/non-compete agreements with the Company on terms that are acceptable to the Investors, and with a salary of

$__________ per year commencing _______, 200__. ___________ will covenant to dedicate 100% of his [her] working time for the benefit of the Company, and any and all developments, projects, ventures or otherwise shall be contributed to or for the benefit of the Company;

(e) any outstanding stockholder notes or other stockholder indebtedness shall be converted to equity at or prior to the Closing;

(f) the negotiation and execution of definitive documents, including a Stock Purchase Agreement, the Certificate of Designation setting forth the terms of the Series A Preferred Stock, the Registration Rights Agreement, and the Shareholders' Agreement (together, the "Definitive Documents"), each in form and substance satisfactory to the Investors; and

(g) the absence of any material adverse change in the business, operations, condition (financial or otherwise) or prospects of the Company.

6. Reasonable Access. The Company shall provide the Investors and their accountants, attorneys and other representatives having a need to know: (i) full access during normal business hours to its offices, facilities, properties, business records and customers; and (ii) such financial and operating data and other information as requested by the Investors.

7. Costs and Expenses. The Company shall be responsible for and shall bear all expenses directly and necessarily incurred in connection with the proposed financing, only if the transaction contemplated hereby is completed, including, but not limited to all legal fees of the Investors' counsel and the Investors' out-of-pocket expenses (together, the "Costs and Expenses").

8. Exclusivity. For a period of 30 days from the date hereof (the "Exclusivity Period'), the Company will deal exclusively with the Investors with respect to any aspect of the Investment. The Company shall not, directly or indirectly, through any officer, director, employee, affiliate, advisor, agent or otherwise, solicit, initiate or encourage submission of proposals or offers from any person or entity relating to any aspect of the Investment, any corporate financing, acquisition of all or a material part of the securities, assets or business of the Company, any merger, consolidation, recapitalization or other business combination involving the Company or any similar transaction (any of the foregoing, a "Transaction"), and the Company shall not have, any discussions with anyone other than the Investors regarding any Transaction. The Company will immediately terminate any discussions or negotiations currently being held with anyone other than the Investors concerning any Transactions. The Company shall promptly notify the Investors if the Company receives a proposal or offer, or if any inquiry or contact from any person with respect to a potential Transaction is made, and shall, in any such notice, indicate in reasonable detail the identity of the offeror and the terms and conditions of any proposal or offer or any such inquiry or contact relating to a potential Transaction.

9. Indemnification. If for any reason whatsoever, the sale of any of the Securities contemplated by this letter is not consummated, the Investors, and their officers,

employees, directors and affiliates ("Indemnities"), shall not be liable or responsible for any expense of the Company, for any charges, claims or damages of any kind or nature whatsoever arising out of this letter or the proposed financing or failure to proceed therewith or otherwise, and the Company shall upon demand, indemnify the Indemnities against any and all claims, losses or damages arising out of any such events and reimburse such Indemnifies immediately upon request for all costs incurred by such Indemnifies.

10. Representations. The Company represents (i) that initiation and/or consummation of the financing contemplated herein will not conflict with or result in a breach of any of the terms, provisions or conditions of any agreements, written or otherwise, to which the Company is a party, and (ii) that there are no claims for services in the nature of a broker's, finder's, or placement fee with respect to the proposed financing.

11. Governing Law. This letter of intent and any claim related directly or indirectly hereto shall be governed by and construed in accordance with the internal laws of The State of New York, without regard to the conflict of laws or principles thereof.

This letter shall serve as an indication of our mutual intentions in connection with the proposed financings stated herein and shall not bind either party, except with respect to the undertakings set forth to in paragraphs 6, 7, 8, 9, 10, and 11. The Company and the Investors specifically agree that the obligations established in paragraphs 7, 8, 9, 10, and 11 will survive any termination of this letter or the discussions of the proposed Investment, whether or not a purchase and sale of any of the securities is completed.

Please affix your signature in the place designated and by doing so, you will confirm that the foregoing correctly sets forth our understanding.

Very truly yours,

The Investors

By:________________________________

Accepted and Agreed, this _______ day of
__________, 200__

By:________________________________

EXHIBIT A

Terms of the Series A Preferred Stock

Issuer	[Company Name] (the "Company")
Issue:	________ shares of Series A Redeemable Convertible Participating Preferred Stock (the "Series A Preferred Stock"), each at $_____ per share, for a total purchase price of $_____, convertible initially into ____% of the fully-diluted equity of the Company at the Closing. [Alternatives include notes with warrants, notes convertible into preferred stock (with or without warrants).]
Investors:	The "Investors", named:
Valuation:	$_____ per share based upon _____ fully diluted shares outstanding prior to the Series A Preferred Stock round, including options and warrants, which is equivalent to a $_____ pre-money valuation.
[Warrants:	Amount of warrant, exercise price, triggers, etc.]
Dividends:	None [Alternative: The holders of Series A Preferred shall be entitled to receive [cumulative/non-cumulative] dividends in preference to any dividend on the Common Stock at the rate of __% per annum, when, as and if declared by the Board of Directors. The holders of Series A Preferred shall also be entitle to receive any dividend declared and paid on the Common Stock pro rata, on an as converted basis. Accrued and unpaid dividends would be cancelled upon conversion of the Series A Preferred Stock to Common Stock.]
Liquidation Preference:	In the event of a liquidation, dissolution or winding-up of the Company, the holders of the Series A Preferred Stock shall receive in preference to the holders of the Company's Common Stock and other securities of the Company, out of the distributable assets and property an amount (the "Liquidation Preference") equal to $_____ per share of Series A Preferred Stock <u>plus</u> the holders of the Series A Preferred Stock will be entitled to share with the holders of Common Stock in the remaining assets of the Company on an as-converted pro rata basis. Upon a reorganization, merger or other acquisition-type transaction in which control of the Company is transferred or sale of assets (other than in the ordinary course of business), the holders of a majority of Series A Preferred Stock shall be entitled to deem such a transaction to be treated as a liquidation and elect to receive the Liquidation Preference in lieu of any right to otherwise share in the proceeds of such transaction.

Rank:	Senior in every respect to all current and future issues of capital stock and preferred stock. Without the approval of at least [two-thirds] of the Series A Preferred Stock, the Company may not issue any shares of capital stock or preferred stock that is senior or equal in any respect to the Series A Preferred Stock.
Conversion Rate/Price:	Subject to anti-dilution and other adjustments, and prior to any Redemption, each one share of Series A Preferred Stock shall be convertible, at the option of the holder, at any time into one (1) share of Common Stock (the “Conversion Rate”) or at a Conversion Price of $_____ per share of Common Stock.
Mandatory Conversion:	The Series A Preferred Stock shall be automatically converted into Common Stock, at the then effective Conversion Rate/Price, (i) in the event that the holders of at least 2/3 of the outstanding Series A Preferred Stock consent to such conversion or (ii) upon the completion of a firmly underwritten public offering of the Company’s shares of Common Stock which results in net proceeds to the Company of at least $______, after deduction of underwriters’ commissions and expenses, and which is offered at a price per share equal to at least ____ % of the Conversion Price then in effect (a “Qualified Offering”).
Redemption at the Option of the Investors:	Holders of Series A Preferred Stock will have the option to require the Company to repurchase the Stock at an average compound annual return of _____ %. Option would arise only if there has been no Qualified Offering or merger or sale of substantially all stock or assets of the Company within five (5) years from the date of the Closing. Option is exercisable by a two-thirds majority of the Series A Preferred Stock at any time beginning on the fifth anniversary of the Closing.
Voting Rights:	Holders of the Series A Preferred Stock shall vote separately as a class on all matters which impact the rights, value or ranking of the Series A Preferred Stock; otherwise they shall vote together with the common holders on an as-converted basis. An affirmative vote of the Series A Preferred Stock (or the approval of the Series A Preferred Stock Directors) shall be required in connection with certain fundamental changes in the Company’s business, ownership or capital structure (such as mergers, acquisitions).
Board of Directors:	The holders of the Series A Preferred Stock, voting separately as a class, shall be entitled to elect _____ ( ) member(s) to the Company’s Board of Directors out of a maximum of _____ ( ) directors. The Board shall establish an Audit Committee and a Compensation Committee, each of which shall be composed entirely of independent directors, including at least one (1) Series A Preferred Stock director on each such committee.

Dilution Protection:	Full ratchet protection shall be applied to the Conversion Price if the Company issues or sells shares of Common Stock or securities convertible/exercisable into Common Stock and the issue price or conversion/exercise price is less than the then-effective Conversion Price. The Conversion Price will also be subject to proportional adjustment for stock splits, stock dividends, recapitalizations and the like.
Information Rights:	So long as an Investor continues to hold shares of Series A Preferred Stock or Common Stock issued upon conversion of the Series A Preferred Stock, the Company shall deliver to the Investor audited annual and unaudited quarterly financial statements that the Company will represent have been prepared in accordance with GAAP. So long as an Investor holds not less than _____ shares of Series A Preferred Stock (or _____ shares of Common Stock issued upon conversion of the Series A Preferred Stock, or a combination of both), the Company will furnish such Investor with unaudited quarterly financial statements and will provide a copy of the Company's annual operating plan within 30 days prior to the beginning of the fiscal year. Each Investor shall also be entitled to standard inspection and visitation rights. These provisions shall terminate upon a Qualified Offering of the Company's Common Stock.
Registration Rights:	The Investors shall have two (2) Demand Registration Rights after an initial public offering and unlimited Piggyback Rights subject to underwriters' cutbacks, all at the Company's expense.
Representations and Warranties:	Usual and customary for a private transaction of this nature, including representations and warranties of the founders.
Preemptive Rights:	In the event that the Company offers any of its equity securities or securities convertible/exercisable into Common Stock while shares of the Series A Preferred Stock are outstanding (an "Equity Offering"), the Investors shall have the right to purchase a number of securities in such Equity Offering (at the price and on the terms applicable to such Equity Offering), so as to maintain their then-existing ownership interest in the Company, assuming that all of the shares of Series A Preferred Stock then outstanding were converted into Common Stock immediately prior to the consummation of such Equity Offering. Any securities not subscribed for by any Investor may be reallocated among the other Investors. These Pre-emptive Rights shall not apply to the issuance of any shares of Common Stock pursuant to a Qualified Offering or to bona-fide Employee Stock Option Plans of the Company.
Shareholders' Agreement:	Usual and customary for a private financing of this nature, including right of first refusal, tag-along rights and preemptive rights as set forth herein.
Covenants:	Usual and customary for a private financing of this nature, including: so

	long as the Series A Preferred Stock remains outstanding, without the approval of the holders of a two-thirds majority of the shares of the Series A Preferred Stock then outstanding, the Company shall not: (i) issue any shares of Preferred Stock that are pari-passu or senior to the Series A Preferred Stock; (ii) pay any Common Stock dividends or make any distribution with respect to the Common Stock; (iii) repurchase any shares of Series A Preferred Stock or common stock (except for buybacks of employee owned stock under plans, the terms of which were approved by the Series A Preferred Directors); (iv) incur any indebtedness in excess of $________ or issue any guarantee; (v) acquire or dispose of any assets (including intellectual property) with a value in excess of $________, except in the ordinary course of business; (vi) incur any capital expenditure in excess of $________; (vii) offer itself for sale or enter into a merger where the Company is not the surviving entity; (viii) enter into any transaction with related parties; (ix) amend or alter the Company's certificate of incorporation or bylaws in any manner adverse to the rights, preferences, value or privileges of the Series A Preferred Stock; (x) create any subsidiary or affiliate; or (xi) change its primary business or enter into any new business.
Key-Man Insurance:	The Company shall establish key man life insurance on key employees, the terms of which shall be agreed upon before closing.