

**WILLAMETTE ANGEL CONFERENCE 2011, LLC  
CONVERTIBLE LOAN TERM SHEET**

**THIS TERM SHEET SUMMARIZES THE PRINCIPAL TERMS OF THE PROPOSED FINANCING FOR A COMPANY THAT IS SELECTED AS A WINNER FROM AMONG THE COMPANIES AT THE WILLAMETTE ANGEL CONFERENCE. THIS TERM SHEET IS FOR DISCUSSION PURPOSES ONLY; THERE IS NO OBLIGATION ON THE PART OF ANY NEGOTIATING PARTY UNTIL A DEFINITIVE NOTE AND WARRANT PURCHASE AGREEMENT ARE SIGNED BY ALL PARTIES. THIS TERM SHEET IS SUBJECT TO THE SATISFACTORY COMPLETION OF DUE DILIGENCE. THIS TERM SHEET DOES NOT CONSTITUTE EITHER AN OFFER TO SELL OR AN OFFER TO PURCHASE SECURITIES.**

**Amount of Convertible Loan:** Minimum of \$75,000 (the “**Loan Amount**”) from Willamette Angel Conference 2011, LLC (“**WAC 2011**”) and other new investors. Convertible promissory notes (the “**Notes**”) will be issued in exchange for cash. Minimum investment of \$25,000 for any non-WAC 2011 investment. (May be waived by Company in its sole discretion.)

**Closing:** The closing (the “**Closing**”) will occur no later than 90 days after the date of the 2011 Willamette Angel Conference.

**Use of Funds:** Working capital to support the growth of the Company. This excludes repayment of existing loans and deferred compensation.

**Interest:** Simple interest will accrue at the rate of 12% per annum during the initial 18 month period and will be payable upon maturity; if the Note is extended beyond 18 months interest will accrue at 18% per annum and such interest will be due and payable quarterly.

**Maturity Date:** Notes will be due 18 months from the Closing; at the option of the holder of the Notes, the Notes may be extended subject to certain terms and conditions including but not limited to the Note holders right at any time after the initial 18 month period to demand a lump sum payment of the Note [or to demand payment of then outstanding balance due under the Note, together with interest at 18% per annum, amortized over 48 equal monthly installments].

**Security; Subordination:** The Notes will be secured by a lien on all of the Company’s assets other than the Company’s intellectual property, which will be subject to a negative pledge. The lien will be senior to all other creditors except for any currently existing standard form bank working capital loan. The Company will not grant security interests in any other assets to any third party; provided, however, that with prior approval

of the WAC 2011 manager, the Notes will be subordinated to a standard form bank working capital loan and to liens granted in connection with the purchase or lease of new equipment by the Company.

**Conversion:**

The Notes, including accrued interest, will be convertible at the option of the holders into shares of equity of the next class or series issued by the Company (the “**Next Equity Financing**”) at the original issue price of such shares (the “**Next Equity Issue Price**”) and on the same terms and conditions applicable to the other investors. If the Company’s Next Equity Financing raises at least \$500,000 and is led by a venture capital firm or other experienced professional investor (a “**Qualified Equity Financing**”), the Notes, including accrued interest, will automatically convert into shares issued in the Next Equity Financing upon its closing at the same price and on the same terms and conditions applicable to the Equity Financing investors. Upon the occurrence of a Liquidation Event (defined below), the Notes, including accrued interest, will be convertible at the option of the holders into shares of the Company’s most senior class or series of outstanding stock at such stock’s original issue price immediately prior to the Liquidation Event.

If a Qualified Equity Financing or the occurrence of a change of control or other similar transaction has not occurred prior to the maturity date of the Notes, the Notes, including accrued interest, will be convertible at the option of the holders into shares of either (a) the equity most recently issued by the Company to investors prior to the date of issuance of the Notes (the “**Prior Equity Financing**”) at the issue price most recently paid for such shares (the “**Prior Equity Issue Price**”) and on the same terms and conditions applicable to the other investors purchasing such shares; or (b) the equity most recently issued by the Company in the Next Equity Financing at the issue price paid for such shares and on the same terms and conditions applicable to the investors purchasing such shares. If the holders do not convert the Notes, the amount of the Notes, including accrued interest, will be due and payable on the Maturity Date.

**Warrant Coverage:**

Simultaneously with issuance of the Notes, the Company will issue warrants to purchase that number of shares of the series or class of shares issued in the Next Equity Financing equal to 25% of the Loan Amount evidenced by each such Note divided by the Next Equity Issue Price (the “**Warrants**”). Until such time as the Next Equity Financing occurs, the Warrants will be exercisable into shares issued by the Company in the Prior Equity Financing in an amount equal to 25% of the Loan Amount evidenced by each such Note divided by the Prior Equity Issue Price. The term of the Warrants shall be 10

years and the Warrants shall include a standard “net exercise” provision. The exercise price of the Warrants will be the Next Equity Issue Price or Prior Equity Issue Price, as the case may be.

**Prepayment:** No prepayment without the consent of the WAC 2011 manager.

**Protective Provisions:** Approval of a majority of the Units of the WAC 2011 will be required for any:

- (a) Sale, merger, consolidation, license, transfer, liquidation, dissolution, recapitalization or reorganization of the Company or all or substantially all of its assets (“**Liquidation Event**”);
- (b) Amendments to the Company’s Articles of Incorporation or Bylaws that could adversely affect the rights of the holders of Notes;
- (c) Insider transactions (including compensation to employee shareholders), unless approved by a majority of the disinterested outside directors;
- (d) Repurchases or redemptions of equity securities, or payment of dividends or other distributions of equity securities;
- (e) Equity Financing in the amount of \$500,000 or greater;
- (f) Acquisition of any company’s securities or assets; and
- (g) Material change to Company’s core business strategy or its declared use of funds.

**Default:** The Notes will be in default and all principal and interest shall be due in full in the event of any of the following:

- (a) Failure to pay interest or principal when due;
- (b) Bankruptcy, insolvency or similar proceedings; or
- (c) Any material breach by the Company of the terms of the Notes or other agreements with the holders of the Notes.

**Board of Directors:** The holders of the Notes will have the option of either appointing one director to the board or to have one observer present at all meetings of the board, including any committees thereof. The right to appoint a director will terminate at such time as the Notes have been converted and holders of the Notes hold less than 10% of the outstanding capital stock of the Company. If an observer is appointed, such person will be entitled to notice of such meetings and to receive all information and materials provided to board members participating in such meetings or taking any action without a meeting, in any case at the same time as board members receive such notice and materials.

**Reports:** The Company will be obligated to provide holders of the Notes with unaudited quarterly financial statements within 45 days after the end

of each fiscal quarter and unaudited annual financial statements within 90 days after the end of each fiscal year.

**Most Favored  
Terms:**

Holders of the Notes will be entitled to receive the benefit of any more favorable terms or conditions that may be provided to other lenders to, and/or investors in, the Company prior to the date that the Notes are converted into capital stock of the Company.

**Amendment:**

The Notes and any related agreements may be amended with the consent of the Company and the holders of a majority in interest of the outstanding Notes.

**Expenses:**

The Company will be responsible for the fees and expenses of one counsel for the investors in connection with this transaction.