

[[**NOTE:** This Term Sheet is provided as a sample and is for illustrative purposes only. The actual terms and conditions of an investment, if any, will vary based on the applicant Company's existing financing structure, capital requirements, performance, the results of investors' diligence, and other factors. Under no circumstances shall any of the terms and conditions set forth herein be construed as a commitment to invest in the applicant Company on such terms or conditions, or under any terms or conditions.]]

**TERM SHEET  
FOR CONVERTIBLE PROMISSORY NOTE FINANCING OF  
[COMPANY]**

\_\_\_\_\_, 2019

This Term Sheet summarizes the principal terms of the Convertible Promissory Note financing of \_\_\_\_\_, a [Delaware] corporation (the "**Company**"). In consideration of the time and expense devoted and to be devoted by the Investors with respect to this investment, the No Shop/Confidentiality and Counsel and Expenses provisions of this Term Sheet shall be binding obligations of the Company whether or not the financing is consummated. No other legally binding obligations will be created until definitive agreements are executed and delivered by all parties. This Term Sheet is not a commitment to invest, and is conditioned on the completion of due diligence, legal review and documentation that is satisfactory to the Investors. This Term Sheet shall be governed in all respects by the laws of the State of Delaware. As used herein, a "**Founder**" means \_\_\_\_\_.

*Securities to be Issued:*

Convertible Promissory Notes (the "**Notes**"). The Notes will be senior, in right of payment, to all other indebtedness of the Company.

The Investors will purchase Notes in an aggregate principal amount of \$\_\_\_\_\_ (the "**Investment**").

The Investment will be allocated as follows:

Connecticut Innovations ("**CI**")- \$\_\_\_\_\_  
Others (TBD): The balance of the round

Collectively, the above parties as well as any other purchasers participating in the Investment are defined as the "**Investors**".

*Interest Rate:*

Outstanding principal under the Notes will accrue interest at a rate of [\_\_%] per annum compounded annually. Interest will be calculated on the basis of a year of 360 days and actual days elapsed. In the Event of Default (as defined below), so long as such Event of Default continues, interest shall accrue at an annual rate of [\_\_%].

*Maturity:*

Unless earlier converted, the Notes will be payable on demand of those holder(s) of those Note(s) representing at least \_\_\_\_\_% of the aggregate outstanding principal amount of all Notes (the "**Required Holders**") on or any time after

\_\_\_\_\_, 20\_\_\_. Prepayment will require approval of Required Holders, other than prepayment upon conversion of the Notes.

*Closing Date:*

As soon as practicable following the Company's acceptance of this Term Sheet and satisfaction of the Conditions to Closing (the "**Closing**") but no later than \_\_\_\_\_, 20\_\_.

*Events of Default; Acceleration:*

The Notes shall accelerate and be immediately payable upon notice from Required Holders after any customary event of default which shall include, without limitation: bankruptcy, insolvency, failure to pay money when due under any Note, material breach of any Note or the Purchase Agreement (as defined below) or the Company's default under other indebtedness. Upon and during the continuance of an event of default, principal shall accrue interest at the Default Rate.

*Conversion Features:*

If a Qualified Financing (as defined below) occurs prior to the full repayment or conversion of the Notes, and prior to the Maturity Date, each Note shall automatically convert into a number of shares of Preferred Stock issued in such Qualified Financing equal to (x) the outstanding principal amount of such Note plus accrued and unpaid interest thereon (the "**Outstanding Amount**"), divided by (y) the lesser of (a) the price per share of the Preferred Stock sold in the Qualified Financing multiplied by \_\_\_% (the "**Discount Percentage**") or (b) \$\_\_\_\_\_ (the "**Valuation Cap**") divided by the capitalization of the Company (i.e. then-outstanding shares, interest, options, warrants, etc.), on a fully-diluted, as-converted basis, immediately prior to such Qualified Financing.

If any Equity Financing (as defined below) other than a Qualified Financing (a "**Non-Qualified Financing**") occurs prior to the full repayment or conversion of any Note, and prior to the Maturity Date, [each Investor][Required Holders] will have the option, at [its][their] discretion, to convert [the Note(s) held by such Investor][all, but not less than all, of the Notes] into a number of shares of capital stock issued in such Non-Qualified Financing equal to the Outstanding Amount divided by the lesser of (a) the price per share of the Preferred Stock sold in the Non-Qualified Financing multiplied by the Discount Percentage or (b) the Valuation Cap divided by the capitalization of the Company, on a fully-diluted, as-converted basis, immediately prior to such Non-Qualified Financing.

If there is any Qualified Financing or Non-Qualified Financing, before the full repayment or conversion of any Note, but after the Maturity Date, [each Investor][Required Holders] will have the option, at [its][their] discretion, to convert [the Note(s) held by such Investor][all, but not less than all, of the Notes] into a number of shares of capital stock issued in such Qualified Financing or Non-Qualified Financing equal to the Outstanding Amount divided by the lesser of (a) the price per share of the Preferred Stock sold in the Qualified Financing or Non-Qualified Financing multiplied by the Discount Percentage or (b) the Valuation Cap divided by the capitalization of the Company, on a fully-diluted, as-converted basis, immediately prior to such Qualified Financing or Non-Qualified Financing.

With respect to any conversion of any Note, the holder thereof will be given rights and preferences no less favorable than those granted to any other purchasers of the capital stock into which such Note shall be converted at such Equity Financing, including, but not limited to, preemptive rights, voting and information rights, liquidation preferences, redemption rights, dividend rights, rights of co-sale, rights of first or secondary refusal, anti-dilution rights and registration rights, if any. For clarity, under no circumstances shall the Notes convert into any “shadow” or similar series of Preferred Stock.

“**Equity Financing**” means a bona fide transaction or series of transactions with the principal purpose of raising capital, pursuant to which the Company issues and sells Preferred Stock or Common Stock.

“**Qualified Financing**” means any Equity Financing by any venture capital, institutional or other professional investor(s) pursuant to which the Company issues and sells Preferred Stock which is senior to all other capital stock with respect to liquidation preferences, redemptions and dividends.

*Liquidation Event:*

If a Liquidation Event (as defined below) occurs prior to the full repayment or conversion of the Notes, then, upon such Liquidation Event, each holder thereof shall be entitled to receive, as payment in full of the Notes, the greater of (a) [\_\_\_]% of the Outstanding Amount or (b) a dollar amount that would be payable as a holder of shares of the Company’s then most senior class of capital stock (with respect to liquidation preferences) if the Note, and the Outstanding Amount thereunder, had been converted into shares of such capital stock immediately prior to such Liquidation Event at a

conversion price per share based upon a valuation of the Company, on a fully-diluted, as-converted basis, equal to the Valuation Cap.

**“Liquidation Event”** means:

(a) the sale, lease, transfer, exclusive license or other disposition, in a single transaction or series of related transactions, by the Company of all or substantially all the assets of the Company;

(b) a merger or consolidation in which the Company is a constituent party and the Company issues voting equity interests pursuant to such merger or consolidation, unless (1) the Company is the survivor or continuing entity of such merger or consolidation, and (2) the Company’s members as constituted immediately prior to such merger or consolidation will, immediately after such merger or consolidation, hold at least a majority of the outstanding voting power of the equity interests of (x) the surviving or resulting entity or (y) if the surviving or resulting entity is a wholly-owned subsidiary of another entity immediately following such merger or consolidation, the parent entity of such surviving or resulting entity; or

(c) a transaction or series of related transactions to which the Company may be a party (including, without limitation, any acquisition of equity, reorganization, merger, or consolidation, but excluding any merger effected exclusively for the purpose of changing the domicile of the Company) in which an entity or person, or a group of related persons or entities, acquires from one or more members of the Company, equity securities representing at least a majority of the outstanding voting power of the Company (other than any transaction or series of related transactions by the Company principally for bona fide equity financing purposes in which cash proceeds are received by the Company or any successor or indebtedness of the Company is cancelled or converted to equity or a combination thereof); or

(d) the dissolution, liquidation or winding-up of the Company.

*Purchase Agreement:*

The Notes will be made pursuant to a Convertible Note Purchase Agreement (the **“Purchase Agreement”**).

The Purchase Agreement shall include standard

representations and warranties by the Company, including capitalization/ownership, financials, absence of litigation, intellectual property and absence of conflicts[; and representations and warranties by Founders regarding technology ownership, etc.]

So long as any Notes are outstanding, the Company will not, without the prior written consent of the Required Holders:

(i) liquidate, dissolve or wind-up the affairs of the Company, or effect any merger or consolidation or any other Deemed Liquidation Event; (ii) purchase or redeem or pay any dividend on any capital stock; (iii) create or authorize the creation of any debt security [if the Company's aggregate indebtedness would exceed \$[\_\_\_\_]][other than equipment leases or bank lines of credit][unless such debt security has received the prior approval of the Company's Board of Directors (the "**Board**")]; (iv) grant any security interest or lien upon the assets of the Company; (v) make any loan or advance to, or own any stock or other securities of, any subsidiary or other corporation, partnership, or other entity unless it is wholly owned by the Company; (vi) make any loan or advance to any person, including, any employee or director, except advances and similar expenditures in the ordinary course of business or under the terms of an employee stock or incentive plan approved by the Board; (vii) guarantee, any indebtedness except for trade accounts of the Company or any subsidiary arising in the ordinary course of business; (viii) change the principal business of the Company, enter new lines of business, or exit the current line of business; (ix) sell, transfer, license, pledge or encumber technology or intellectual property, other than licenses granted in the ordinary course of business; or (x) capital expenditures exceeding the Board approved budget, by more than [\_\_\_\_]%.

*Amendments/Waivers:*

Any amendments to or waivers to the Notes or the Purchase Agreement may only be made by written agreement of the Company and the Required Holders, and all holders of Notes shall be subject thereto.

*Preemptive Right:*

Each holder of any Note shall have a preemptive right to purchase, pro rata, all or any part of the additional securities proposed to be sold by the Company, other than (i) shares reserved for issuance under the Company's incentive compensation or stock option plans, or (iii) shares of stock of the Company issued, pursuant to the approval of the Board, in acquisitions or joint ventures, or to consultants, vendors, lenders, equipment lessors, independent members of the Board, or customers.

*Conditions to Closing:*

Standard conditions to Closing, which shall include, among other things, satisfactory completion of financial and legal due diligence, compliance with applicable Blue Sky laws, and an opinion of counsel to the Company. In addition, the following conditions shall apply:

- Approval of the investment from the respective Investor's governing boards;
- Each Investor's obtaining satisfactory results from due diligence;
- The absence of adverse changes in the business, prospects or conditions of the Company;
- Representations, warranties, conditions to closing and covenants required by the Investors; and
- [Execution of lease for office space located in Connecticut/hiring of [\_\_] full-time employees located in Connecticut; and]
- Nondiscrimination certificate provided by CI.

*Counsel and Expenses:*

CI counsel to draft closing documents. Company to pay all legal and administrative costs of the financing at Closing, including reasonable fees and expenses of (i) Investor counsel (not to exceed [\$25,000]), (ii) peer reviews on behalf of Investor (not to exceed [\$\_\_\_\_\_]) and (iii) Company counsel (not to exceed [\$20,000]), and the Company shall be responsible for any such legal and administrative costs of the Investors if the Closing does not occur, unless the Closing does not occur because the Investors unreasonably withdraw their commitment.

Investor Counsel: \_\_\_\_\_  
\_\_\_\_\_

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*Information Rights:*

Each Investor will be granted access to Company facilities and personnel during normal business hours and with reasonable advance notification, subject to reasonable confidentiality restrictions. The Company will deliver to each Investor (i) annual, quarterly, and monthly financial statements, and other information as determined by the Board; (ii) thirty days prior to the end of each fiscal year, a comprehensive operating budget forecasting the Company's revenues, expenses, and cash position on a month-to-month basis for the upcoming fiscal year; and (iii) promptly following the end of each quarter an up-to-date capitalization table certified by the Company's CFO.

*Non-Competition and Non-Solicitation Agreements:*

Each current Founder and key employee will have entered into, or will enter into, a one year non-competition and non-solicitation agreement in a form reasonably acceptable to the Investors.

*Non-Disclosure and Developments Agreement:*

Each current and former Founder, employee and consultant with access to Company confidential information/trade secrets will have entered into, or will enter into, a non-disclosure and proprietary rights assignment agreement in a form reasonably acceptable to the Investors.

*Observation Rights:*

As long as CI holds any convertible notes (including the Notes), capital stock, or warrants issued by the Company, CI will be entitled to have a non-voting observer attend meetings of the Board.

*CII Provisions*

Company will commit to comply with CI's "Connecticut Presence", equal employment opportunity, and restrictions on payments to employees of the State of Connecticut provisions. Failure to comply with the Connecticut Presence provision will trigger the right of CI to redeem its Notes. A sample of such provision is attached as Exhibit A. In the event, CI exercises that right, then all other Investors will enjoy the same right.

*No Shop/Confidentiality:*

The Company agrees to work in good faith expeditiously towards a closing. The Company and the Founders agree that they will not, for a period of [\_\_\_\_\_] weeks from the date these terms are accepted, take any action to solicit, initiate, encourage or assist the submission of any proposal, negotiation or offer from any person or entity other than the Investors relating to the sale or issuance, of any of the

convertible notes of the Company or the acquisition, sale, lease, license or other disposition of the Company or any material part of the stock or assets of the Company and shall notify the Investors promptly of any inquiries by any third parties in regards to the foregoing. The Company will not disclose the terms of this Term Sheet to any person other than officers, members of the Board and the Company's accountants and attorneys and other potential Investors acceptable to CI, as lead Investor, without the written consent of the Investors.

*Expiration:*

This Term Sheet expires on \_\_\_\_\_, 20\_\_ if not accepted by the Company by that date.

**EXECUTED**

**CONNECTICUT INNOVATIONS, INCORPORATED**

**By:** \_\_\_\_\_  
**Name:**  
**Title:**

**AGREED AND ACCEPTED BY:**

[COMPANY]

**By:** \_\_\_\_\_  
**Name:** \_\_\_\_\_  
**Title:** \_\_\_\_\_



## Exhibit A

### **Sample Connecticut Presence and Repurchase Obligation**

Notwithstanding any other provision of this Agreement, as long as CI owns all or any portion of any Warrant, any Shares, any Note or any other securities of the Company that are not freely saleable to the public pursuant to a public registration (including until the expiration of any applicable underwriter's lock-up agreement to which CI is a party) or pursuant to Rule 144(k) under the Securities Act, the Company shall not relocate (as that term is defined in Section 32-5a of the Connecticut General Statutes) outside of the State of Connecticut and shall maintain a Connecticut Presence (as defined in this Section 2.4).

A "**Connecticut Presence**" shall mean, collectively, (a) maintaining the Company's principal place of business with respect to its U.S.-based operations in the State of Connecticut, and (b) basing a majority of its U.S.-based employees and those of its U.S.-based subsidiaries in the State of Connecticut (which for the avoidance of doubt in determining the number of employees shall not include any individual independent contractors, consultants or service providers which are self-employed or employed by any person or entity other than the Company), and (c) basing a majority of its U.S.-based operational functions (other than those functions that, in accordance with the Company's business model or characteristics of the Company's products, are located in the locale of customers or collaborators of the Company), including customer service and research and development, in the State of Connecticut, and (d) conducting a majority of its U.S.-based administrative functions in the State of Connecticut. Collectively, (a), (b), (c) and (d) define a "**Connecticut Presence**".

It is expressly acknowledged and understood by the parties that the Company intends to enter into business and produce and/or commercialize its products in countries other than the United States and because of issues including, but not limited to, different product needs in different countries, potential fragility of some of its products and advantages of having research and development personnel work in close proximity to its customers, the Company deems it necessary to establish subsidiaries, as appropriate, and to build appropriate managerial, research and development, manufacturing and sales and marketing infrastructure in countries other than the United States and that building of such infrastructure to any extent deemed necessary by the Company and/or its subsidiaries shall be permitted under the definition of a "**Connecticut Presence**".

Upon the failure to maintain a Connecticut Presence, CI's sole and exclusive remedy shall be to require redemption of any and all Notes, Shares and Warrants for the applicable Put Price (as defined below) as to each such Warrant Right, Share or Note. "**Put Price**" means, at any date: (a) as to any promissory note issued by the Company and held by CII (a "**Note**"), the then entire outstanding principal amount of, and accrued and unpaid interest on, such Note, as well as a prepayment premium in an amount sufficient to provide an annually compounding rate of return of twelve percent (12%) per annum (the "**Required Rate of Return**") on the advanced principal amount under such Note (even if not then-outstanding) for the period of time from the date of issuance of such Note through and including the date when the full Put Price is paid to CII with respect to such Note; and (b) as to any outstanding share of the Company's capital stock held by CII (the "**Shares**"), the greater of (i) the fair market value of such Share and (ii) an amount equal to

the aggregate amount of money paid by CII to the Company to purchase such Share plus an amount calculated to yield to CII the Required Rate of Return on such money from the date of each such payment through and including the date when the full Put Price is paid to CII with respect to such Share; and (c) as to any warrant or option to purchase the Company's capital stock and held by CII (the "**Warrants**"), the excess, if any, the fair market value of a Share issuable under such Warrant over (ii) the exercise price of a Share under such Warrant (as determined under the applicable Warrant, in each case taking into account the applicable conversion ratio of a preferred share to a common share if such Share is a preferred share, as of such date.

For purposes of determining whether the Company is in compliance with this Connecticut Presence covenant, the assets, revenues and employees of any business acquired by the Company on an arm's-length basis from a non-affiliate of the Company (provided such acquired business had been operating for at least one (1) year prior to the acquisition) shall be excluded and disregarded. In addition, it shall not constitute a violation of this covenant, and this covenant shall be of no further force or effect, if the Company ceases to maintain a Connecticut Presence by virtue of an acquisition of the Company in connection with which CII receives a liquidation distribution with respect to, or cash, securities or other property in exchange for, all of the Shares and Warrants held by CII on substantially the same terms as the other holders of the same type of Shares and Warrants and receives full repayment of all Notes (a "**Change of Control Transaction**").