

—Convertible Debt (49SAF Standardized Note)—

THIS DOCUMENT HELPS DEMONSTRATE TERMS AND CONDITIONS IN A CONVERTIBLE DEBT NOTE.¹ IT IS NOT AN OFFER FOR FINANCING. This note may apply to “seed stage” 49SAF financings of \$500,000 or less, which 49SAF is leading. Not all 49SAF financings use this instrument.

**Municipality of Anchorage (49th State Angel Fund)
Promissory Note Term Sheet**

DATE OF ISSUE

The following is a summary of the principal terms with respect to the Municipality of Anchorage, DBA the 49th State Angel Fund (49SAF) and its proposed convertible debt financing of **COMPANY**, an Alaska **CORPTYPE** (the “*Company*”) whose mailing address is:

MAILADDRESS

This summary of terms does not constitute a legally binding obligation except for those described as “Binding Terms,” below.

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| Investment Amount | <p>49SAF to make a senior secured convertible loan to Company of an amount of \$X. Company will raise total financing of up to \$Y for its operations during TIMEPERIOD and may, but is not required to, use similar convertible promissory notes for this purpose.</p> <p>The 49SAF loan is anticipated to close on or before DATE.</p> |
| Private Investment or Financing Required | <p>Company must close private debt or equity financing, in an amount greater than or equal to the first tranche above, in tandem. Company will have until DATE to secure funds matching this Note.</p> |
| Type of Security | <p>Secured Convertible Promissory Note (the “Note”), subordinate to bank loans. Secured by all business assets, technology, patents and intellectual property of Company. The Note and all other notes closing in tandem and which are similarly structured, if any, will be equal to each other.</p> |
| Interest Rates | <p>Standard interest rate equal to 8%, compounded annually.</p> |
| Conversion / Payment | <p>Equity Financing. If the Note remains outstanding upon the closing of any venture capital, institutional or other equity security financing for the account of the Company (a “Financing”), 49SAF may elect to convert all of the outstanding principal and accrued and unpaid interest under the Note into the identical equity security (“Equity Security”) issued at such Financing. Upon such election, the Note will be automatically convertible into that number of fully paid and nonassessable Units of the Equity Security equal to:</p> <div style="border: 1px solid black; padding: 10px; margin: 10px auto; width: fit-content;"> $\frac{(\text{Principal} + \text{accrued and unpaid interest}) \times \begin{matrix} 1.25 \text{ if the Financing occurs within 12 months of Note date, or;} \\ 1.5 \text{ if the Financing occurs after 12 but within 24 months of Note date}^2 \end{matrix}}{\text{the purchase price per Equity Security paid by investors at the time of the closing of such Financing.}}$ </div> |

¹ Sources: JumpStart Ohio, [Venture Deals](#) (Brad Feld), Convertible Note Financing 101 For Startups (Antone Johnson), NVCA, ACA, RAIN Source Capital.

² These multipliers function like a “price discount” on stock. 1.25x = 20% discount; 1.5x = 33% discount

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| | <p>Discretionary Conversion. Similarly, beginning 45 days after closing 49SAF may elect at any time, in its sole discretion, to convert all of the outstanding principal and accrued and unpaid interest under the Note using the schedule above into the most senior class of equity security (i.e., in terms of liquidation preference, dividends, anti-dilution and other protective provisions) authorized by the company at that time or if no such class is available, equity ownership interest (“Units”). Pricing per Unit shall be as agreed by the Company and 49SAF, or, if no agreement can be reached within fifteen (15) days, then price per Unit shall be based on the following conditions in order, provided that the conversion condition is mutually acceptable to both 49SAF and Company:</p> <ul style="list-style-type: none"> • (1) independent business valuation of the Company as of a date within 12 months of 49SAF’s discretionary conversion; • (2) most recent sale of Units by the Company (excluding exercise of options held by the Company’s founders), or <p>If no agreement can be reached under the conditions above through mutual consent, then 49SAF and Company shall agree upon a third party entity they find mutually acceptable, which will then conduct an independent business valuation.</p> <p>Business Combination. Upon a Business Combination—defined as merger, sale of a majority interest of Units, sale, lease or other disposition of all or substantially all of the assets of the Company—the Note shall accelerate in an amount equal to the outstanding principal and accrued and unpaid interest under this Note multiplied by three (3), payable at the election of 49SAF in cash or the same form of consideration (e.g., a mix of cash and stock) received by other equity holders in the transaction.</p> <p>Event of Default. Upon an event of default (as defined in the Note), all unpaid principal and accrued interest thereon will be immediately due and payable.</p> |
| Maturity Date | <p>Two (2) years from the closing date unless extended by mutual consent of both Company and 49SAF for up to an additional three (3) years.</p> <p>If the Note remains outstanding at Maturity, 49SAF may elect at its sole discretion to either convert the Note under the terms above for discretionary conversion, or receive the outstanding principal and accrued and unpaid interest under the Note in cash.</p> <p>Without the consent of 49SAF, the Note may not be prepaid, in whole or in part, prior to the Maturity Date.</p> |
| Security Interest | <p>The principal amount of the Note plus all accrued interest thereon will be secured by all of the assets of the Company pursuant to a Security Agreement.</p> |
| Covenants | <p>All covenants may be waived by 49SAF in writing. Any such waiver is an individual event and not a waiver of the covenant as a whole, which continues.</p> <p>The Company will agree to certain customary affirmative covenants, including, without limitation, to maintain its corporate headquarters within the boundaries of the Municipality of Anchorage. Failure to comply will result in the note becoming immediately due and payable at a multiple of four times the outstanding unpaid principal and accrued interest. This provision is unique to 49SAF and may not exist among other note holders.</p> <p>The Company will agree to certain customary negative covenants during the term</p> |

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| | <p>of the Note, including, without limitation, to refrain from (i) redeeming any Units of the Company; (ii) making any dividends or other distribution of assets within two years of Note closing date, except in the ordinary course of addressing member tax liability; (iii) incurring any debt senior to the Note, except commercial bank loans; (iv) paying any employee more than \$120,000 per annum; (v) creating any senior liens on the assets of the Company, subject to certain standard exceptions including commercial bank loans.</p> |
| Assignment | <p>49SAF shall be entitled to transfer its ownership interest or all or part of its Units purchased by it to one or more affiliated partnerships or funds managed by it, provided such transferee agrees in writing to be subject to the same terms and conditions and the Company consents to the assignment, such consent not to be unreasonably withheld. This provision is unique to 49SAF and may not exist among other note holders.</p> |
| Founder Matters | <p>Cofounders shall devote 100% of their professional time to the Company; any other professional activities will require approval of the Board of Directors.</p> |
| Board Observer Rights | <p>49SAF to have the right to appoint one board observer who will not have any voting rights but will be permitted to attend and participate in all meetings of the Board, subcommittees of the Board, and meetings of the executive officers of the Company.</p> |
| Information Rights | <p>The Company will grant 49SAF complete access to the Company's books and records, premises, and personnel in order for 49SAF to perform due diligence, continue monitoring its investment and as necessary to comply with federal requirements. 49SAF will have the right to receive all meeting materials sent to board members, subcommittee members and executive officers of the Company, excepting privileged attorney-client communications. Company will answer all requests for information from 49SAF in a reasonable and timely fashion. Key activity reports, of terms specified by 49SAF, will be required of Company on a quarterly basis in order for 49SAF to maintain its records and comply with federal reporting requirements.</p> <p>49SAF will receive unaudited quarterly financial statements which compare expenditures against budget within 45 days after quarter end, and audited or unaudited annual financial statements within 90 days after year end. Should Company become aware that quarterly actual or forecast expenditures result in variance of 10% or more against budget, Company shall provide notice and explanation of variance to 49SAF within ten (10) business days.</p> <p>Should 49SAF choose to not exercise these rights, such action is not a waiver of the right, which continues.</p> |
| Insurance | <p>Prior to closing, the Company shall obtain key person insurance of an amount acceptable to 49SAF. Use of proceeds from the insurance will be at 49SAF discretion.</p> |
| Indemnification | <p>The organizational documents of the Company shall limit a manager's liability and exposure to damages to the broadest extent permitted by applicable law. The Company will indemnify members including 49SAF for any claims brought against it by any third party (including any other member of the Company) by virtue of the person's status as a member, but in no event shall the Company indemnify 49SAF with respect to its funding obligations to the Treasury Department.</p> |
| Proprietary Information and | <p>Each current and former officer, employee and consultant of the Company shall enter into an acceptable proprietary information and inventions agreement, in which all relevant IP shall be assigned to the Company before closing.</p> |

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| Inventions | |
| Use of Proceeds | All proceeds received by the Company are to be used for those specific purposes as set forth in the Budget Company provides in its application documents. Budget may be amended from time to time by Company, but each amendment must be separately filed with 49SAF. All funds spent must adhere to the 49SAF Use of Funds Certification (see Appendix A). |
| Documentation | The definitive documentation necessary for the sale and purchase of the Note will be prepared by counsel to 49SAF, and will contain representations, covenants and other terms and conditions customary in transactions of this type. |
| Due Diligence Final Approval | The transactions contemplated by this Term Sheet are subject to the satisfactory completion of due diligence by 49SAF and the subsequent final approval of the entire investment by the Mayor and CFO of the Municipality of Anchorage. |
| Expenses | Company to reimburse 49SAF for legal counsel in financing (no more than \$10,000). |
| Expiration | This letter expires at 11:59 p.m., Alaska Daylight Time, (TWO WEEKS FROM DATE ISSUED) , unless the Company executes it below and returns an original or faxed executed version to 49SAF by that time. The parties contemplate signing definitive agreements by CLOSEDATE . |
| Binding Terms: | This term sheet is confidential and for the use of the Company's management, owners and their advisors. Accordingly, the information contained in this document may not be disclosed to any third party without 49SAF approval. |

Company: COMPANY

Municipality of Anchorage
DBA 49th State Angel Fund

By: _____

By: _____

Name: _____

Name: _____

Title: CEO

Title: _____

Date: _____, 2013

Date: _____, 2013

NOT A FINANCING OFFER