[NAME OF COMPANY]
Convertible Debt Financing
Term Sheet

[DATE]

The following outlines the terms of a proposed convertible debt financing (the "**Financing**") of [NAME] (the "**Company**"), by certain accredited investors (the "**Investors**").

Investment Amount	$[__________], subject to adjustment at the sole discretion of the Company's Board of Directors (the "**Board**").
Investors	Certain accredited investors identified by the Board.
Closing Date	The initial closing is expected to take place on or before [DATE]. At the discretion of the Board, the Company may conduct additional closings until [DATE] subject to adjustment at the sole discretion of the Board.
Instrument	The investment instrument shall be Convertible Promissory Notes issued by the Company (the "**Notes**"). As a condition to the issuance of any Notes, the Company and each Investor will also enter into a Subscription Agreement pursuant to which, among other things, each Investor will make representations regarding such Investor's ability to satisfy certain federal and state securities laws requirements.
Interest	[8-12]% per annum.
Maturity Date	[DATE]
Qualified Financing Conversion	If the Company consummates an equity financing in which the Company issues and sells shares of a newly-created series of preferred stock with gross proceeds to the Company of at least $[TRIGGER AMOUNT] ([exclusive/inclusive] of the conversion of outstanding Notes) (a "**Qualified Financing**"), the Balance will be automatically converted into shares of such newly-created series of preferred stock at a price per share equal to [80]% of the price per share at which such shares are issued and sold to other new money investors in such Qualified Financing[, subject to a $[INSERT CAP] pre-money valuation cap] (the "**Qualified Financing Conversion Price**").
Majority Holders	Any action required on behalf of the Investors with respect to the Notes may be taken by the Investors holding Notes representing at least a majority of the outstanding principal balance of all Notes as of such date (the "**Majority Holders**").
No Security Interest:	The Notes will be a general unsecured obligation of the Company.
Expenses	The Company and each Investor will each bear its own legal and other expenses with respect to the Financing.

Commented [A1]: This allows for rolling closings.

Commented [A2]: This Term Sheet provides for a simple Subscription Agreement to be delivered with the Convertible Note. The Company should also provide disclosure material to the investors so that the investors may make an informed decision.

Commented [A3]: This is the date that the loan will become due and payable if it hasn't converted. The typical term is 12-18 months, but depends on when the company intends to raise its next financing.

Commented [A4]: The trigger amount is the minimum amount that the company needs to raise in a new financing in order for the Notes to automatically convert.

Commented [A5]: This is the discount that the investors will receive on the preferred stock price. For example, if the next round of equity is sold at $1.00 per share, the price per share for the Noteholders will be $0.80. This is somewhat negotiable, but we most commonly see a 20% discount.

Commented [A6]: This language is optional. Some investors like a "cap" on the conversion price—meaning that they want some assurance that the Notes will not convert at a valuation higher than $XX. This is typically removed unless the investors request it.

Commented [A7]: This is an important provision because it allows the majority holders to act on behalf of the group. Without this provision, the company would need to obtain consent from each holder to amend the Note.