

[NAME OF COMPANY]
CONVERTIBLE LOAN TERM SHEET

THIS TERM SHEET SUMMARIZES THE PRINCIPAL TERMS OF THE PROPOSED FINANCING (THE "BRIDGE FINANCING") OF [NAME OF COMPANY] (THE "COMPANY"). 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 IS 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 \$100,000 (the "Loan Amount") from new investors. Convertible promissory notes (the "Notes") will be issued in exchange for cash. Minimum investment of \$5,000 (may be waived by the Company in its discretion).
- Closing:** The closing (the "Closing") will occur upon the Company receiving commitments for an aggregate Loan Amount of at least \$100,000.
- Interest:** Simple interest will accrue at the rate of 10% per annum and will be payable upon maturity.
- Maturity Date:** Notes will be due 18 months from issuance.
- Security; Subordination:** The Notes will be secured by a senior lien on all of the Company's assets other than the Company's intellectual property, which will be subject to a negative pledge, and the Company will not grant any security interest in its assets to any third party; provided that, upon the consent of holders of a majority in interest of the Notes, the Notes will be subordinate 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.
- Automatic Conversion:** If the Company completes an equity financing (an "Equity Financing") of at least \$500,000 (including the outstanding aggregate Loan Amount), the Notes, including accrued interest, will automatically convert into shares issued in the Equity Financing upon its closing at the original issue price of such shares (the "Original Issue Price") and on the same terms and conditions applicable to the Equity Financing investors. The Notes, including accrued interest, will also be convertible into shares of the Company upon receipt of the consent of holders of a majority in interest of the outstanding Notes.
- 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 Equity Financing equal to 25% of the Loan Amount evidenced by each such Note divided by the Original Issue Price (the "Warrants"). 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 Original Issue Price.
- Prepayment:** No prepayment without the consent of holders of a majority in interest of the outstanding Notes.
- Sale of Company** Approval of the holders of a majority in interest of the outstanding Notes 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;
 - (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; and
 - (d) Repurchases or redemptions of equity securities, or payment of dividends or other distributions on equity securities.

- 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 Company's Board of Directors will be set at five. Prior to the closing of the Equity Financing referenced above, the holders of Common Stock and the holders of the outstanding Notes will each have the right to select two directors, with the fifth director to be an selected by mutual agreement of the holders of a majority in interest of Common Stock and holders of a majority in interest of the outstanding Notes.
- 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 120 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.