Angel Investor Forum

Term Sheet for Potential Investment

In

Printing Money Inc.

Series A Preferred Shares

This term sheet summarizes the principal terms with respect to a potential private placement of equity securities of Printing Money Inc. (the “Company”) by a group of investors led by the Angel Investor Forum. This term sheet is intended solely as a basis for further discussion and is not intended to be and does not constitute a legally binding obligation except as provided under “Confidentiality”, “Exclusivity” and “Expenses” below. No other legally binding obligations will be created, implied or inferred until a document in final form is executed and delivered by all parties. Without limiting the generality of the foregoing, it is the parties intent that, until that event, no agreement shall exist among them and there shall be no obligations whatsoever based on such things as parol evidence, extended negotiations, “handshakes”, oral understandings, or courses of conduct (including reliance and changes of position), except as provided under “Confidentiality”, “Exclusivity” and “Expenses” below.

The Company and investors are discussing a private placement of shares of Preferred Shares on the following terms:

Amount of Investment: A minimum of $XX and a maximum of $XX

Valuation of the Company: $XX pre-money on a fully diluted basis

 $XX post-money on a fully diluted basis

Type of Security: The Company’s Series A Preferred Share (“Preferred”) convertible into the Company’s Common Share (“Common”).

Price Per Share $XX (“Original Purchase Price”)

Capitalization of the Company: The current capitalization of the Company, and the capitalization after this proposed financing are set forth in Exhibit 1.

Rights, Preferences and

Restrictions of Preferred: (1) Dividends:

 Dividends shall accrue on each share of Preferred on a cumulative basis at the rate of XX% per annum (“Accruing Dividends”) commencing on the date of issuance of each share. Accruing Dividends shall be payable only in the event of liquidation, dissolution or winding up of the Company or upon redemption. For any other dividends or distributions, Preferred will participate with Common on an as-converted basis. No dividends shall be paid on any other equity securities at a rate greater than the rate at which dividends are paid on Preferred (based on the number of shares of Common into which Preferred and any other securities are convertible on the date the dividend is declared). Dividends on Preferred will be in preference to dividends paid on any other equity securities.

 (2) Liquidation Preference:

 In the event of any liquidation, dissolution or winding up of the Company, the holders of Preferred will be entitled to receive, prior to and in preference to the holders of all other holders of equity, an amount equal to the Original Purchase Price, plus any unpaid Accruing Dividends plus any other dividends or distributions declared but not paid, and then to share with the holders of Common in the remaining assets on an as-if-converted basis (”Liquidation Preference”).

 (3) Treatment of Mergers and Substantial Transactions:

 At the option of the holders of a per rata majority of Preferred, the effectuation by the Company or third party acquirers of a transaction or series of transactions in which more than 50% of the voting power of the Company is disposed of by the holders of Common to a single person or group of affiliated persons, of the consolidation or merger of the Company with or into any other corporation or corporations, or the sale of all or substantially all of its assets, or the exclusive license of a material amount of the Company’s technology shall be deemed to be a liquidation, dissolution or winding up for purposes of the Liquidation Preference.

 (4) Conversion:

 A holder of Preferred will have the right to convert Preferred, at the option of the holder, at any time, into shares of Common. The total number of shares of Common into which Preferred may be converted initially will be determined by dividing the Original Purchase Price by the conversion price. The initial conversion price will be the subject of adjustment to reflect share dividends, share splits and similar events and as provided in paragraph (6) below.

 (5) Automatic Conversion:

 All of the Preferred will be automatically converted into Common, at the then applicable conversion price, in the event that holders of a majority of the Preferred consent to the conversion to Common Stock or upon the closing of a sale of the Company’s Common Shares pursuant to a firm commitment underwritten public offering by the Company at a public offering price per share (prior to underwriter commissions and discounts) that is not less than 5 times the applicable conversion price, in an offering that will generate net proceeds to the Company of at least $20 million.

 (6) Anti-dilution Provisions:

 The conversion price of Preferred will be subject to adjustment (i) for share dividends, share splits, or similar events, and (ii) on a standard, weighted average basis to prevent dilution in the event that the Company issues additional shares at a purchase price less than the applicable conversion price. No adjustment to the conversion price will occur for any issuance of additional shares at a purchase price in excess of the current conversion price. Conversion prices will not be adjusted because of (a) conversion of Preferred, and (b) the issuance and sale of the Reserved Shares (see “Reserved Shares” below).

 Sample calculation of the weighted average formula:

 NCP = OCP \* ((CSO + CSP) / (CSO + CSAP))

Where:

* NCP = new conversion price
* OCP = conversion price in effect immediately prior to the new issuance
* CSO = common shares outstanding (excluding unallocated options but including shares receivable upon conversion of Preferred and other convertible securities)
* CSP = common shares purchasable at the OCP with consideration received by company
* CSAP = common share actually purchased in subsequent issuance

 (7) Voting Rights:

 The Preferred shall vote together with the Common on an as-converted basis, and not as a separate class, except (i) as provided under “Board Representation” below, (ii) as provided under “Protective Provisions” below, or (iii) as required by law. The Company’s Operating Agreement will provide that the number of authorized shares of Common may be increased or decreased with the approval of a majority of the Preferred and Common, voting together as a single class, and without a separate class vote by the Common.

 (8) Protective Provisions:

 Consent of the holders of at least a majority of the outstanding Preferred will be required for:

1. Any sale by the Company of a substantial portion of its assets for stock or units, or any consolidation or merger of the company with another entity
2. The creation of any senior equity security (excluding non-convertible debt)
3. Transactions in which control of the Company is transferred
4. Repurchases or redemptions of equity securities, or payment of dividends or other distributions on equity securities (other than Preferred and employee share repurchase pursuant to vesting agreements)
5. Sales, transfer or encumbrances of technology other than licenses granted on the ordinary course of business
6. The liquidation, dissolution, recapitalization or reorganization of the Company
7. Any changes to the rights, preferences, and privileges of preferred
8. Any increase or decrease in the size of the Board
9. Amendments, additions or repeal of any provision of the Company’s Operating Agreement or bylaws that adversely affect the rights of Preferred (as interpreted under the Delaware General Corporation Law as if it applied to the Company)
10. Material changes in the nature of the Company’s business
11. Authorization of any amount of indebtedness (other than inventory financing in the ordinary course of business) in excess of $100,000
12. Any increase or decrease in the number of authorized shares of Preferred or Common
13. Any increase in the Reserved Share pool.

Additionally, any changes in the compensation of the CEO or founders or any total compensation over $100,000 per year for any other individual will require the approval of the Board of Directors’ Compensation Committee.

Redemption: At the election of each holder, the Company will redeem Preferred at any point on or after 5 years from the date of purchase by paying in cash an amount equal to the Liquidation Preference at the time of redemption. To the extent that the Company may not at any such date legally redeem such Preferred, such redemption will take place as soon as legally permitted.

 To the extent that the Company’s available cash flow does not permit such redemption, the remainder shall be paid in three equal annual installments, represented by a note to each unredeemed holder of Preferred bearing interest at the rate of prime plus 10% per annum, compounded quarterly, up to a maximum allowed by applicable usury laws. The holders of a pro rata majority of Preferred shall be entitled to elect a majority of the Company’s Board until such amounts are paid in full.

 No other capital share of the Company is redeemable prior to Preferred without the approval of the holders of a majority of Preferred.

Information Rights: The Company will within 60 days furnish the investors with annual audited and quarterly unaudited financial statements, including cash flow statements and a capitalization table as of the end of the prior quarter, and quarterly comparisons to the annual budget. In addition, the Company will furnish to the investors by December 31st of each year an annual budget and business plan for the following year.

 Any Board members designated by the holders of Preferred will have the right to inform all investors of Preferred of items discussed by the Board and any Company information deemed pertinent to the investors of Preferred, provided that (i) such disclosures are in confidence and under a non-disclosure agreement, (ii) such disclosures are not of matters that were discussed with the board under the attorney-client privilege, and (iii) matters that the board determines is extremely sensitive will not be disclosed or, if stipulated by the board, will be disclosed with names redacted.

 The Company will provide holders of the Preferred a capitalization table once this round and any subsequent rounds of financing are closed.

 Any investor who holds at least 20% of Preferred (who is not a competitor) or any investor who indirectly owns 20% of Preferred will be granted access to Company facilities and personnel during normal business hours and with reasonable advance notification.

 The obligation of the Company to furnish financial statements and other non-public information will terminate upon a public offering.

Registration Rights: Demand Rights on Forms other than Form S-3: If, at any time after the earlier of the Company’s initial public offering (IPO) and the date five years from the purchase of Preferred (but not within 180 days of the effective date of such registration), investors holding at least 20% of Preferred (or Common issued upon conversion of Preferred) request that the Company file a Registration Statement for at least 20% of the Common issued or issuable upon conversion of Preferred (or any lesser percentage if the aggregate offering price to the public would exceed $15 million), the Company will use its reasonable diligent efforts to cause such shares to be registered.

 The Company will not be obligated to affect more than two consummated registrations (other than on Form S-3) under these demand registration right provisions. A registration will count for the purpose only if (i) all securities requested to be registered are registered and (ii) it is closed, or withdrawn at the request of the investors (other than as a result of a material adverse change to the Company).

 Registrations on Form S-3: Holders of at least 20% of Preferred (or Common Share issuable upon conversion of Preferred) or a pro rata majority of share holders in the Company from the Angel Investor Forum will have the right to require the Company to file Registration Statements of its Common Share on form S-3 (or any equivalent successor form) if the anticipated aggregate public offering price to the public would exceed $1 million.

 The Company shall not be obligated to effectuate more than two such registrations in any 12-month period. A registration will count for this purpose only if (i) all registrable securities requested to be registered are registered and (ii) it is closed, or withdrawn at the request of the investors (other than as a result of a material adverse change to the Company.

 Piggy-Back Registration: The investors and, subject to underwriter’s cutbacks, the management, will be entitled to “piggyback” registration rights on all registration statements of the Company, subject to the right, however, of the Company and its underwriters to reduce the number of shares proposed to be registered to a minimum of 30% on a pro rata basis and to complete reduction on an IPO at the underwriter’s discretion. In all events, the shares to be registered by holders of Preferred will be reduced only after all other share holders’ shares are reduced.

 Registration Expenses: All registration expenses (exclusive of underwriting discounts and commissions), including the fees and expenses of one counsel to represent the investors, shall be borne by the Company.

 Future Purchasers of Company Securities: Subsequent purchasers of the Company’s securities may be granted registration rights provided that they are no more favorable than the rights granted to the holders of Preferred or otherwise upon consent of the holders of a majority of the Preferred.

 Other Registration Provisions: Other provisions will be contained in the agreement with respect to registration rights as are customary, including cross-indemnification, the Company’s ability to delay the filing of the demand registration for one period of not more than 180 days, underwriting arrangements and the like. The registration rights will only apply to Common issued upon conversion of Preferred and the Company shall have no obligation to register an offering of Preferred.

 In addition, investors shall agree in connection with the IPO, if requested by the managing underwriter, not to sell or transfer any shares of Common (excluding shares acquired in or following the IPO) for a period of up to 180 days following the IPO (provided all managers and officers of the Company and 1% share holders agree to the same lock-up). Such lock-up agreement shall provide that any discretionary waiver or termination of the restrictions of such agreements by the Company or representatives of the underwriters shall apply to all investors, pro rata, based on the number of shares held. The Company will require all future purchasers of shares prior to the Company’s initial public offering to execute such a lock-up agreement.

Board Representation: The authorized number of managers of the Company will be initially set at five.

 Under a voting agreement, the Board shall consist of five members comprised of (i) (AIF Member TBD) as the representative designated by the Angel Investor Forum, (the “Series A Board Member”), (ii) the person then serving at the Chief Executive Officer of the Company (currently XX), (iii) one designee of the holders of Common shares (not including any Common shares received upon conversion of the Preferred) (the “Common Shares”)) (currently XX), and (iii) two persons who are not employed by the Company and who are approved as described below (currently XX and XX) (the “Unaffiliated Directors”). In the event of any vacancy in one or both of the seats held by the Unaffiliated Directors, a replacement shall be designated who is satisfactory to at least two of the following: (a) the holders of a majority of the Preferred, (b) the holders of a majority of the Common Shares, and (c) a majority of the current directors then in office.

 The Board shall meet at least once every month for the first year after investment by members of the Angel Investor Forum and at least quarterly thereafter.

 Each Board Committee shall include at least one Preferred manager. The Compensation Committee shall consist of three unaffiliated directors, designated as follows: (i) the Series A Board Member; (ii) the designee of the Common Shares (currently XX); and (iii) one member mutually selected by the foregoing two members. The CEO will not in any case be a member of the Compensation Committee, but will be invited to meetings of the Compensation Committee except for portions of meetings when his compensation is being considered or there are otherwise conflicts.

 The incentive share plan shall be reasonably satisfactory to the investors and shall be approved as a condition of closing. Other than the CEO, whose compensation following the closing shall have been agreed to in advance of the Closing, approval of any total compensation of any other individual above $100,000, changes in the CEO’s compensation or the employment of family members of any executive will require the approval of the Compensation Committee. If the Series A Board Member votes against the proposed changes in compensation, the matter will be decided by the Board.

 The Company will bind D&O insurance with a carrier and in an amount satisfactory to the Board. In the event the Company merges with another entity and is not the surviving corporation, or transfers all of its assets, proper provisions shall be made so that successors of the Company assume the Company’s obligations with respect to indemnification of members of the board.

Expense Reimbursement for The Company shall reimburse outside managers for all reasonable

Outside Managers: travel expenses incurred in their services as a manager of the Company.

Use of Proceeds: The proceeds from the sale of Preferred will be used for working capital including paying past obligations of accounts payable.

Stock Restriction and Vesting All stock options, and all previously issued shares, will vest on the following

Agreements: basis:

 14% of options and shares shall vest one year after granted. 1.5% of options and shares shall vest monthly between the 13th and 36th month after granted. The remaining 50% of options and shares shall vest upon a sale of controlling interest in the company. All unvested options and stock will vest upon a sale of controlling interest in the company or an IPO.

Reserved Shares: The Company will reserve XX shares of Common (the “Reserved Shares”) for issuance to employees, officers and consultants

 The Reserved Shares (to the extent not issued as of the closing as described above) will be issued from time to time under such arrangements, contracts or plans as are approved by the Board. Issuance of Shares or options to employees in excess of the Reserved Shares will be subject to the investors’ anti-dilution rights, right of first refusal, and other rights.

 Holders of Reserved Shares will be required to execute share restriction and vesting agreements as described above.

Right of First Refusal: In the event that the Company offers equity securities (other than Reserved Shares, or upon conversion of outstanding Preferred, or in connection with an acquisition or strategic vendor, leasing or lending arrangement approved by the Board, or in a public offering), each investor shall have a right of first refusal to purchase a pro rata percentage of shares in the new offering, based on the holder’s percentage ownership in the Company. Participating investors will also have an over-subscription right. This right will terminate upon the Company’s initial public offering. If any investor does not participate for at least its full pro rata share in any financing, then the investor will forfeit its right of first refusal for all future rounds of financing.

Co-Sale Agreement: The founders and other significant Common share holders of the Company shall agree that, if any such share holder proposes to sell shares of the Company, each investor will be entitled to participate in such sale by selling the same percentage of his shares as such share holder is selling of such share holder’s Common. This right will terminate upon the Company’s initial public offering.

Non-Competition and Each founder and key employee will enter into a 24 month non-

Non-Solicitation and Agreements: competition and non-solicitation agreement in a form reasonably acceptable to the investors.

Non-Disclosure and Developments Each current and former founder, employee and consultant with access

Agreements: to Company confidential information/trade secrets will enter into a non-disclosure and proprietary rights assignment agreement in a form reasonably acceptable to the investors.

Transfer of Rights: Any rights accorded to the Investors may be transferred to (i) any partner or retired partner of any holder which is a partnership, (ii) any member or former member of any holder which is a limited liability company and (iii) any transferee who acquires at least 10% of the Company’s shares; provided that the Company is given written notice thereof.

The Securities Purchase Agreement: The purchase of Preferred, if consummated, will be made pursuant to a securities purchase agreement (with exhibits) drafted by counsel to the investors and acceptable to the Company and the investors. The securities purchase agreement and related agreements will contain, among other things, representations and warranties of the Company and the founders, indemnification of the investors against third party and other claims, covenants of the Company, and conditions to the obligations of the investors.

Conditions of Closing: The closing for the purchase of Preferred will be conditioned upon:

1. Completion of due diligence to the satisfaction of the investors in their sole discretion.
2. Execution by the Company of a securities purchase agreement and related agreements satisfactory to the Investors in their sole discretion.
3. Compliance by the Company with applicable securities laws
4. Opinion of counsel to the Company rendered to the investors in form and substance satisfactory to the investors.
5. Key man life insurance policy for $1,000,000 on the lives of each of the Founders, with the Company as beneficiary but with proceeds to be applied to redemption of Preferred Stock at the election of holders of the majority of Preferred.
6. Assignment of all key patents, trademarks and trade secrets to the Company.
7. Approval of the Operating Agreement for the Company.
8. Approval of projected use of funds and cash flow forecast for the next 2 years.
9. A minimum of $XX in investment to close, moneys to be held in escrow until that minimum reached.
10. Such other conditions as are customary for transactions of this type.

Expenses: The Company will bear the reasonable legal fees (up to $15,000) and other expenses of the investors with respect to the consummation of the transaction. If the transaction is not consummated, each party will bear its own legal fees and expenses unless the transaction is not consummated by reason of the Company’s refusal to proceed in which case the Company shall pay the investors’ out-of-pocket expenses, including legal fees.

Confidentiality: The Company will not disclose or discuss the terms of this Term Sheet with any person other than key officers, members of the Board or the Company’s accountants or attorneys without the written consent of the Angel Investor Forum, except as required by law. In addition, the Company shall not use any investor’s name in any manner, context or format (including, reference on or links to websites, press releases,) without the prior review and approval of investor.

Exclusivity: From the date of acceptance of this Term Sheet until the earliest to occur of (a) consummation of the financing, (b) the formal termination of negotiation by both Angel Investor Forum investors and Company or (c) XX 2014, the Company will not directly or indirectly solicit, initiate or participate in any discussions or negotiations with, or encourage or respond to any inquiries or proposals by any persons, company or group other than the Investors, concerning any financing or sale of the Company without prior approval of Angel Investor Forum. The Company will promptly notify Angel Investor Forum if any person, company or group seeks to initiate any other discussions or negotiations as contemplated in the immediately preceding paragraph, makes any proposal or inquiry, or requests any information with respect to any proposed financing or sale of the Company.

Closing: A close is envisaged on or before XX.

Counsel to the Investors: XX

Counsel to the Company: XX

**Printing Money Inc.** ( the “Company”) **Angel Investor Forum** (the “investor”)

Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Signature:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Signature:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Title:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Title:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Founder Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Founder Signature:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Exhibit 1:

|  |  |
| --- | --- |
|  | **Printing Money Inc.** |
|  | **Hypothetical Capitalization Table**  |
|  | **Pre Series A investment** |  | **Post Series A investment** |
| **Shareholders** | **Common Stock** | **Options** | **Total Fully Diluted** | **% Fully Diluted** |  | **Common Stock** | **Series A Preferred** | **Options** | **Total Fully Diluted** | **% Fully Diluted** |
| Founder 1 | 750,000 |  | 750,000 | 37.5% |  | 750,000 |   |   |  750,000  | 30% |
| Founder 2 | 750,000 |  | 750,000 | 37.5% |  | 750,000 |  |  |  750,000  | 30% |
|   |  |  |  |   |  |   |  |  |  |   |
| Stock option pool |  | 500,000 | 500,000 | 25.% |  |   |  |  500,000  |  500,000  | 20% |
|   |  |  |  |   |  |   |  |  |  |   |
| Series A investors |  |  |  |   |  |   | 500,000 |  |  500,000  | 20% |
|   |   |   |   |   |  |   |   |   |   |   |
| Totals | 1,500,000 | 500,000 | 2,000,000 | 100% |  | 1,500,000 | 500,000 | 500,000 | 2,500,000 | 100% |
|  |  |  |  |  |  |  |  |  |  |  |
| Pre-money Valuation |  $ 2,000,000  |  |  |  |  |  |  |  |  |  |
| price/share |  $ 1.00  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Series A investor raise |  $ 500,000  |  |  |  |  |  |  |  |  |  |
| Post-money Valuation |  $ 2,500,000  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| option pool drawn from pre-money | 20% |  |  |  |  |  |  |  |  |  |