

LETTER OF INTENT RE PREFERRED STOCK PURCHASE

[date]

[Name of Investor]
[address of Investor]

[Name of Company]
[address of Company]

Dear Sirs:

This letter is to confirm our discussions and set out a summary of the principal terms with respect to a proposed purchase of preferred stock in the capital of [Name of Company] (the "Company") by [Name of Investor] (the "Investor"). This Letter of Intent is intended solely as a basis for further discussions and is not intended to be and does not constitute a legally binding obligation, except for Section XI, paragraph (c). A legally binding obligation will only be created pursuant to definitive final agreements to be negotiated and executed between the parties.

I. Securities

- (a) The Investor will purchase \$_____ worth of newly issued _____ [describe class of shares] Preferred Stock, convertible into shares of common stock, representing _____% of the Company on a fully diluted basis including the entire option pool, conversion of all securities and exercise of all options and rights. The Investor will purchase the Preferred Stock for \$_____ per share, corresponding to a pre-transaction valuation of \$_____.
- (b) A non-cumulative dividend will accrue on the Preferred Stock at the rate of _____% per annum, payable as and when declared by the Board of Directors. Any dividends not paid currently ("Accrued Dividends") shall be paid:
 - (a) upon the liquidation or winding up of the Company,
 - (b) under the provisions of "Liquidity Events", as defined below, or
 - (c) upon redemption of the Preferred Stock.

Upon conversion of the Preferred Stock into common stock, all dividends will be cancelled.

- (c) Each share of Preferred Stock will be convertible at any time, at the option of the holder, into shares of common stock of the Company at an initial conversion price equal to the original purchase price per share, subject to adjustment as described below under the heading "Anti-Dilution Provisions". Initially, each share of Preferred Stock will be convertible into one (1) share of common stock.

II. Liquidity Events

- (a) For purposes of this Letter of Intent, a "Liquidity Event" is defined as any liquidation, sale, merger (where a change of control occurs), or winding up of the Company. Upon the occurrence of a Liquidity Event in which the price per share is at least _____ times the average per share cost of the Investor's holdings of Preferred Stock, the proceeds shall be allocated between the holders of common and Preferred Stock on a *pro rata* basis, treating the Preferred Stock on an "as if converted" basis.
- (b) Upon the occurrence of a Liquidity Event in which the price per share is not at least _____ times the average per share cost of the Investor's holdings of Preferred Stock, the holders of Preferred Stock shall be entitled to receive in preference to the holders of the common stock an amount equal to the purchase price per share plus Accrued Dividends. Any remaining proceeds shall be allocated between the holders of common and Preferred Stock on a *pro rata* basis, treating the Preferred Stock on an "as if converted" basis.

THIS IS A 5-PAGE DOCUMENT.