FROM STARTUP TO EXIT
AN INSIDER’S GUIDE TO LAUNCHING AND SCALING YOUR TECH BUSINESS
SHIRISH NADKARNI
A PDF COMPANION TO THE AUDIOBOOK
ACHIEVING PRODUCT/MARKET FIT

What Is an MVP?

Delightful
Usable
Reliable
Functional

Not This

This

Delightful
Usable
Reliable
Functional

Courtesy of Jussi Pasanen
See Aarron Walter’s book Designing for Emotion

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Figure 1
Retention Curves for Android Apps

- Top 10 Apps
- Next 50 Apps
- Next 100 Apps
- Next 5,000 Apps

Figure 2
You should outline the secret sauce that will allow you to build an unfair competitive advantage that is difficult for the competition to replicate. Network effects are a great example of a competitive advantage that is very hard for competitors to overcome. I love marketplace companies such as OfferUp, Poshmark, and so on, as a growing installed base leads to network effects that create a significant moat for these companies. If you are leveraging AI/ML to build your solution, having access to proprietary data can also be a significant competitive advantage.

I am not a big fan of feature comparison lists. It simply highlights that you have some temporary competitive advantage based on a few features. It is not going to give the VCs a sense that you have a

Competition

<table>
<thead>
<tr>
<th>OFFLINE TRANSACTION</th>
<th>ONLINE TRANSACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>CS (CouchSurfing)</td>
<td>Airbnb</td>
</tr>
<tr>
<td>craigslist</td>
<td>Hostels.com</td>
</tr>
<tr>
<td>BedandBreakfast.com</td>
<td></td>
</tr>
<tr>
<td>Rentobi.com</td>
<td>Hotels.com</td>
</tr>
<tr>
<td>Vrbo</td>
<td></td>
</tr>
</tbody>
</table>

Figure 3
### Super Liquidation Preference Example

<table>
<thead>
<tr>
<th></th>
<th>Series A Investors</th>
<th>Note Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment</td>
<td>$10,000,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Valuation</td>
<td>$20,000,000</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>Per share value</td>
<td>$20,000,000/10,000,000 = $2</td>
<td>$4,000,000/10,000,000 = $0.40</td>
</tr>
<tr>
<td># of shares</td>
<td>$10,000,000/2 = 5,000,000</td>
<td>$1,000,000/0.40 = 2,500,000</td>
</tr>
<tr>
<td>Per share liquidation preference</td>
<td>$2</td>
<td>$2</td>
</tr>
<tr>
<td>Total liquidation preference</td>
<td>5,000,000 x $2 = $10,000,000</td>
<td>2,500,000 x $2 = $5,000,000</td>
</tr>
</tbody>
</table>
Anti-Dilution Provision Weighted Average Formula

**ALTERNATIVE 1:** “Typical” weighted average:

\[ CP2 = CP1 \times \frac{(A+B)}{(A+C)} \]

- \( CP2 = \) Series A conversion price in effect immediately after new issue
- \( CP1 = \) Series A conversion price in effect immediately prior to new issue
- \( A = \) Number of shares of common stock deemed to be outstanding immediately prior to new issue (includes all shares of outstanding common stock, all shares of outstanding preferred stock on an as-converted basis, and all outstanding options on an as-exercised basis; and does not include any convertible securities converting into this round of financing)
B = Aggregate consideration received by the corporation with respect to the new issue divided by CP1

C = Number of shares of stock issued in the subject transaction

The following issuances shall not trigger anti-dilution adjustment:

(i) securities issuable upon conversion of any of the Series A Preferred, or as a dividend or distribution on the Series A Preferred; (ii) securities issued upon the conversion of any debenture, warrant, option, or other convertible security; (iii) common stock issuable upon a stock split, stock dividend, or any subdivision of shares of common stock; and (iv) shares of common stock (or options to purchase such shares of common stock) issued or issuable to employees or directors of, or consultants to, the company pursuant to any plan approved by the company’s board of directors [including at least [_______] Series A director(s)].
B = Aggregate consideration received by the corporation with respect to the new issue divided by CP1

C = Number of shares of stock issued in the subject transaction

The following issuances shall not trigger anti-dilution adjustment:

(i) securities issuable upon conversion of any of the Series A Preferred, or as a dividend or distribution on the Series A Preferred;
(ii) securities issued upon the conversion of any debenture, warrant, option, or other convertible security;
(iii) common stock issuable upon a stock split, stock dividend, or any subdivision of shares of common stock; and
(iv) shares of common stock (or options to purchase such shares of common stock) issued or issuable to employees or directors of, or consultants to, the company pursuant to any plan approved by the company's board of directors [including at least [_______] Series A director(s)].

Figure 4. Slack’s Tiered Pricing
Collecting leads and selling them to enterprises is a common strategy in the academic and enterprise space. In the academic space, there are companies like All Star Directories that provide resources for students interested in vocational training and degree programs. They collect information about the students and sell the leads to providers of these vocational programs. Similarly, in the enterprise space, there are a number of sites that provide resources for companies looking to purchase specific types of enterprise solutions.

**Figure 5. Stripe Pricing**

<table>
<thead>
<tr>
<th>INTEGRATED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access a complete payments platform with simple, pay-as-you-go pricing</td>
</tr>
<tr>
<td>2.9% + 30¢ per successful card charge</td>
</tr>
<tr>
<td>• Everything you need to manage payments</td>
</tr>
<tr>
<td>• Get hundreds of feature updates each year</td>
</tr>
<tr>
<td>• No setup fees, monthly fees, or hidden fees</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CUSTOMIZED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design a custom package for your business</td>
</tr>
<tr>
<td>Available for businesses with large payments volume or unique business models</td>
</tr>
<tr>
<td>Volume discounts</td>
</tr>
<tr>
<td>Multi-product discounts</td>
</tr>
</tbody>
</table>

**GET STARTED IN MINUTES →**
GLOSSARY OF TERMS

409A Valuation: A 409A valuation is an independent appraisal of the fair market value (FMV) of a private company’s common stock. Once a 409A valuation is completed, the company can issue stock options with an exercise price equal to the common stock share price determined by the 409A valuation.

Accelerator: An entity that provides mentorship and funding to startups to help them grow faster and achieve product market fit.

Accredited Investor: An accredited investor is an individual or a business entity, by virtue of their assets or income, as defined by securities law, that is allowed to trade securities that may not be registered with financial authorities.

Angel Investor: An independent wealthy individual who makes an investment in a company with their own money.

Anti-Dilution Protection: An anti-dilution provision is a clause that protects an investor from a reduction in the value of his or her shares due to the issuance by the company of additional shares to
other investors at a per share price that is lower than the per share price paid by the investor.

**ARR (Annual Recurring Revenue):** ARR is a metric for SaaS or subscription businesses with a subscription revenue model. ARR is the value of the contracted recurring revenue that the company expects to receive on an annual basis.

**B2B (Business to Business):** A B2B business is one that sells primarily to business entities.

**B2C (Business to Consumer):** A B2C business is one that sells primarily to consumers.

**CAC (Customer Acquisition Cost):** CAC is a metric that measures the average cost of acquiring a single customer. Typically, the CAC is evaluated in conjunction with the LTV (Customer Lifetime Value). Investors typically like to see a 3:1 ratio or higher of LTV to CAC.

**CAP Table (Capitalization Table):** A cap table is an accounting of all the equity held by various investors in a company. Investors will typically ask for the company’s cap table prior to making an investment.

**Convertible Note:** A convertible note is a form of short-term debt in a company that automatically converts to equity upon the completion of a qualified financing.

**CPC (Cost per Click):** Cost per click (CPC) refers to the price you pay for each click in a pay-per-click (PPC) marketing campaign.

**CPM (Cost per Mille):** CPM is the cost of advertising for a thousand impressions of your advertising creative.
**Crowdfunding:** A type of funding where a company raises funds from individual unaccredited investors by selling early access to its products or services.

**Down Round:** A financing where the per share price offered to investors is lower than the previous round of financing.

**Due Diligence:** An intensive exploration that investors engage in to better understand the company’s product offering, go-to-market strategy, financials, and legal obligations in the context of a financing.

**Founder’s Stock:** The common stock issued to founders, typically at a very low par value, during the formation of the company.

**Fully Diluted:** A calculation that takes into account all shares held by employees and investors along with granted options, available option pool, and warrants. An entity’s ownership of a company is always calculated on a fully diluted basis.

**IPO (Initial Public Offering):** An IPO is the first fund raise by a company where the stock of the company is offered for sale to the general public.

**Lead Investor:** An investor who leads a financing on behalf of all investors and sets the terms of the financing.

**Liquidation Preference:** A right held by investors to receive their funds back before common shareholders in the event of a liquidation or liquidity event.

**LTV (Lifetime Value):** LTV is the sum of all profits generated by a single customer over the life of the customer’s relationship with the company. Typically, the LTV is evaluated in conjunction with the
CAC (Customer Acquisition Cost). Investors typically like to see a 3:1 ratio or higher of LTV to CAC.

MVP (Minimum Viable Product): A minimum viable product is a version of a product with the least number of features to be usable by early customers who can then provide feedback for future product development.

Network Effect: A network effect is a phenomenon by which a product or service gains additional utility as it acquires more users. Facebook is an example of a service that became more valuable to users as more users joined the service.

Option Pool: An option pool is the number of options that have been set aside by a company to award to employees and contractors of the company.

Post-Money Valuation: The post-money valuation is the valuation of the company after an investment has been made in the company.

Preferred Round: A preferred round is an investment round in a company where preferred shares are issued to investors. Preferred shares typically have rights that are superior to common shares.

Pre-Money Valuation: The pre-money valuation is the valuation of a company prior to an investment in the company.

Pro rata: A right that investors have to invest in a future round in proportion to their current ownership in the company.

SAFE (Simple Agreement for Future Equity): A SAFE is an agreement between an investor and a company that provides rights to the investor for future equity in the company. The SAFE investor
receives the future shares when a priced round of investment or liquidity event occurs.

**Seed Round:** A seed round is an investment in a company prior to a Series A investment in the company. Typically, a company raises between $500,000 and $3 million in a seed round.

**SEM (Search Engine Marketing):** Search engine marketing (SEM) is a form of internet marketing that involves the promotion of websites by increasing their visibility in search engine results pages primarily through paid advertising.

**SEO (Search Engine Optimization):** Search engine optimization (SEO) is the process of improving the quality and quantity of website traffic to a website or a web page from search engines.

**Series A Round:** A Series A round is the first major institutional round in the company. A Series A round is typically $3 million or higher in funding.

**Series Seed:** Series Seed is a form of equity in a company that utilizes a simpler set of investment documentation that was originally created by Fenwick and West. The cost of completing a Series Seed investment is typically significantly less compared to an equity round with a complete set of investment documentation.

**Term Sheet:** A term sheet is a nonbinding memorandum of understanding between an investor and a company outlining the material terms of the investment in the company.

**Valuation Cap:** The maximum valuation that investors will invest in a company in a future financing, typically in the context of a convertible note.
**Venture Debt:** Venture debt is a type of debt financing provided to venture-backed companies by specialized banks or non-bank lenders such as venture debt firms.

**Warrant:** A warrant is an instrument that offers the holder of the warrant the option to purchase equity in the company at a fixed share price.
MEMORANDUM OF TERMS

Except with respect to the provisions entitled “Exclusive negotiations” and “Confidentiality,” which are intended to be, and are, legally binding agreements among the parties hereto, this Memorandum of Terms represents only the current thinking of the parties with respect to certain of the major issues relating to the proposed private offering and does not constitute a legally binding agreement. This Memorandum of Terms does not constitute an offer to sell or a solicitation of an offer to buy securities in any state where the offer or sale is not permitted.

THE OFFERING

Issuer: [NewCo, Inc.], a Delaware corporation (the “Company”)

Securities: Series A Preferred Stock (the “Preferred”)
Valuation of the Company: $[ ] pre-money

Amount of the offering: $[ ]

Number of shares: [ ] shares

Price per share: $[ ]

Investor(s): [ ] or its affiliated entities (the lead investor(s)), [ ] and other investors acceptable to the Company.

Capitalization: See Exhibit A for the prefinancing capitalization of the Company and the pro forma capitalization following the proposed offering.

Anticipated closing date: Initial closing on or before [ ], with one or more additional closings within [60] days thereafter.

TERMS OF THE PREFERRED

Dividends: Noncumulative dividends at an annual rate of 8 percent of the purchase price per share in preference to the common stock, when and if declared by the board. Any dividends in excess of the preference will be paid to the common stock.

Liquidation preference: In the event of a liquidation, dissolution or winding up of the Company, the Preferred will have the right to receive the original purchase price plus any declared but unpaid dividends prior to any distribution to the common stock. The remaining assets will be distributed pro rata to the holders of common stock on an as-converted basis. A sale of all or substantially all of the Company’s assets or a merger or consolidation of the
Company with any other company will be treated as a liquidation of the Company.

**Redemption:** The Preferred will not have redemption rights.

**Conversion:** The Preferred may be converted at any time, at the option of the holder, into shares of common stock. The conversion rate will initially be 1:1, subject to anti-dilution and other customary adjustments.

**Automatic conversion:** Each share of Preferred will automatically convert into common stock, at the then applicable conversion rate, upon (i) the closing of a firmly underwritten public offering of common stock at a price per share that is at least five times the purchase price of the Preferred with gross offering proceeds in excess of $35 million (a “**Qualified Public Offering**”), or (ii) the consent of the holders of at least 50 percent of the then **outstanding shares of Preferred**.

**Anti-dilution:** The conversion price of the Preferred (which will initially equal the purchase price of the Preferred) will be subject to adjustment, on a broad-based weighted average basis, if the Company issues additional securities at a price per share less than the then applicable conversion price.

There will be no adjustment to the conversion price for issuances of (i) shares issued upon conversion of the Preferred; (ii) shares or options, warrants or other rights issued to employees, consultants or directors in accordance with plans, agreements or similar arrangements; (iii) shares issued upon exercise of options, warrants or convertible securities existing on the closing date; (iv) shares issued as a dividend or distribution on Preferred or for which adjustment is otherwise made pursuant to the certificate of incorporation.
(e.g., stock splits); (v) shares issued in connection with a registered public offering; (vi) shares issued or issuable pursuant to an acquisition of another corporation or a joint venture agreement approved by the board; (vii) shares issued or issuable to banks, equipment lessors or other financial institutions pursuant to debt financing or commercial transactions approved by the board; (viii) shares issued or issuable in connection with any settlement approved by the board; (ix) shares issued or issuable in connection with sponsored research, collaboration, technology license, development, OEM, marketing or other similar arrangements or strategic partnerships approved by the board; (x) shares issued to suppliers of goods or services in connection with the provision of goods or services pursuant to transactions approved by the board; or (xi) shares that are otherwise excluded by consent of holders of a majority of the Preferred.

**General voting rights:** Each share of Preferred will have the right to a number of votes equal to the number of shares of common stock issuable upon conversion of each such share of Preferred. The Preferred will vote with the common stock on all matters except as specifically provided herein or as otherwise required by law.

**Voting for directors:** So long as 25 percent of the originally issued Preferred is outstanding, the holders of Preferred will be entitled to elect one director. The holders of common stock will be entitled to elect two directors. The directors will be entitled to customary indemnification from the Company and reimbursement of reasonable costs of attendance at board meetings.

**Protective provisions:** So long as at least 10 percent of the originally issued Preferred is outstanding, consent of the holders of at least 50 percent of the Preferred will be required for any action that (i) alters any provision of the certificate of incorporation or the
APPENDIX

(e.g., stock splits); (v) shares issued in connection with a registered public offering; (vi) shares issued or issuable pursuant to an acquisition of another corporation or a joint venture agreement approved by the board; (vii) shares issued or issuable to banks, equipment lessors or other financial institutions pursuant to debt financing or commercial transactions approved by the board; (viii) shares issued or issuable in connection with any settlement approved by the board; (ix) shares issued or issuable in connection with sponsored research, collaboration, technology license, development, OEM, marketing or other similar arrangements or strategic partnerships approved by the board; (x) shares issued to suppliers of goods or services in connection with the provision of goods or services pursuant to transactions approved by the board; or (xi) shares that are otherwise excluded by consent of holders of a majority of the Preferred.

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Protective provisions:
So long as at least 10 percent of the originally issued Preferred is outstanding, consent of the holders of at least 50 percent of the Preferred will be required for any action that (i) alters any provision of the certificate of incorporation or the bylaws if it would adversely alter the rights, preferences, privileges or powers of or restrictions on the preferred stock or any series of preferred; (ii) changes the authorized number of shares of preferred stock or any series of preferred; (iii) authorizes or creates any new class or series of shares having rights, preferences or privileges with respect to dividends or liquidation senior to or on a parity with the Preferred or having voting rights other than those granted to the preferred stock generally; (iv) approves any merger, sale of assets or other corporate reorganization or acquisition; (v) approves the purchase, redemption or other acquisition of any common stock of the Company, other than repurchases pursuant to stock restriction agreements approved by the board upon termination of a consultant, director or employee; (vi) declares or pays any dividend or distribution with respect to the common stock; (vii) approves the liquidation or dissolution of the Company; (viii) increases the size of the board; (ix) encumbers or grants a security interest in all or substantially all of the assets of the Company in connection with an indebtedness of the Company; (x) acquires a material amount of assets through a merger or purchase of all or substantially all of the assets or capital stock of another entity; or (xi) increases the number of shares authorized for issuance under any existing stock or option plan or creates any new stock or option plan.

INVESTOR RIGHTS

Information rights: The Company will deliver to each holder of at least [500,000] shares of Preferred, (i) audited annual financial statements within 135 days following year-end, (ii) unaudited quarterly financial statements within 45 days following quarter-end, (iii) unaudited monthly financial statements within 30 days of month-end, and (iv) annual business plans. The information rights will terminate upon an initial public offering.
Registration rights: Registrable securities. The common stock issued or issuable upon conversion of the Preferred will be “Registrable Securities.”

Demand registration. Subject to customary exceptions, holders of at least 50 percent of the Registrable Securities will be entitled to demand that the Company effect up to two registrations (provided that each such registration has an offering price of at least $10.00 per share with aggregate proceeds of at least $20 million) at any time following the earlier of (i) five years following the closing of the financing and (ii) 180 days following the Company’s initial public offering. The Company will have the right to delay such registration under certain circumstances for up to two periods of up to 90 days each in any twelve month period.

“Piggyback” registration. The holders of Registrable Securities will be entitled to “piggyback” registration rights on any registered offering by the Company on its own behalf or on behalf of selling stockholders, subject to customary exceptions. In an underwritten offering, the managing underwriters will have the right, in the event of marketing limitations, to limit the number of Registrable Securities included in the offering, provided that, in an offering other than the initial public offering, the Registrable Securities may not be limited to less than 25 percent of the total offering. In the event of such marketing limitations, each holder of Registrable Securities will have the right to include shares on a pro rata basis as among all such holders and to include shares in preference to any other holders of common stock.

S-3 rights. Subject to customary exceptions, holders of Registrable Securities will be entitled to an unlimited number of
demand registrations on Form S-3 (if available to the Company) so long as those registered offerings are each for common stock having an aggregate offering price of not less than $1 million. The Company will not be required to file more than two such Form S-3 registration statements in any twelve month period.

*Expenses.* Subject to customary exceptions, the Company will bear the registration expenses (exclusive of underwriting discounts and commissions) of all demand, piggyback and S-3 registrations, provided that the Company will not be required to pay the fees of more than one counsel to all holders of Registrable Securities.

*Termination.* The registration rights of a holder of Registrable Securities will terminate on the earlier of (i) such date, on or after the Company’s initial public offering, on which such holder may immediately sell all shares of its Registrable Securities under Rule 144 during any 90-day period and (ii) three years after the initial public offering.

*Market stand-off.* Holders of Registrable Securities will agree not to effect any transactions with respect to any of the Company’s securities within 180 days following the Company’s initial public offering, provided that all officers, directors and 1 percent stockholders of the Company are similarly bound.

*Other provisions.* The Investor Rights Agreement will contain such other provisions with respect to registration rights as are customary, including with respect to indemnification, underwriting arrangements and restrictions on the grant of future registration rights.
**Right to maintain proportionate ownership:** Each holder of at least [500,000] shares of Preferred will have a right to purchase its pro rata share of any offering of new securities by the Company, subject to customary exceptions. The pro rata share will be based on the ratio of (x) the number of shares of Preferred held by such holder (on an as-converted basis) to (y) the Company’s outstanding shares, options and warrants (on an as-converted basis). Participating holders will have the right to purchase, on a pro rata basis, any shares as to which eligible holders do not exercise their rights. This right will terminate immediately prior to the Company’s initial public offering.

**Right of first refusal and co-sale agreement:** In the event any founder proposes to transfer any Company shares, the Company will have a right of first refusal to purchase the shares on the same terms as the proposed transfer.

If the Company does not exercise its right of first refusal, holders of Preferred will have a right of first refusal (on a pro rata basis among holders of Preferred) with respect to the proposed transfer. Rights to purchase any unsubscribed shares will be reallocated pro rata among the other eligible holders of Preferred.

To the extent the rights of first refusal are not exercised, the holders of Preferred will have the right to participate in the proposed transfer on a pro rata basis (as among the transferee and the holders of Preferred).

The rights of first refusal and co-sale rights will be subject to customary exceptions and will terminate on an initial public offering.
**APPENDIX**

Right to maintain proportionate ownership: Each holder of at least [500,000] shares of Preferred will have a right to purchase its prorata share of any offering of new securities by the Company, subject to customary exceptions. The prorata share will be based on the ratio of (x) the number of shares of Preferred held by such holder (on an as-converted basis) to (y) the Company’s outstanding shares, options and warrants (on an as-converted basis). Participating holders will have the right to purchase, on a prorata basis, any shares as to which eligible holders do not exercise their rights. This right will terminate immediately prior to the Company’s initial public offering.

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The rights of first refusal and co-sale rights will be subject to customary exceptions and will terminate on an initial public offering.

**“Drag-along” right:** Subject to customary exceptions, if holders of 50 percent of the Preferred and 50 percent of the common stock approve a proposed sale of the Company to a third party (whether structured as a merger, reorganization, asset sale or otherwise), each stockholder will agree to approve the proposed sale. This right will terminate upon a Qualified Public Offering.

**EMPLOYEE MATTERS**

**Vesting of employee shares:** Subject to the discretion of the board, shares and options issued to employees, directors and consultants will be subject to four-year vesting, with 25 percent vesting on the first anniversary of the commencement of services and the remainder vesting monthly thereafter. The Company will have the right, upon termination of services, to repurchase any unvested shares.

**Proprietary information agreements:** The company will have all employees and consultants into proprietary information and inventions agreements in a form reasonably satisfactory to the investors.

**“Key person” life insurance:** The company will obtain a “key person” life insurance policy on the founders in the amount of $2 million, with proceeds payable to the company.

**Other Matters**

**Legal fees and expenses:** At closing, the company will pay the reasonable fees and expenses of a single counsel to the investors up to a maximum of $35,000.

**Exclusive negotiations:** From the date of the execution of this Memorandum of Terms until the earlier of (i) [__________], (ii) notice
of termination of negotiations by the lead investor(s) and (iii) the initial closing of the financing contemplated by this Memorandum of Terms, neither the Company nor any of its directors, officers, employees or agents will solicit, or participate in negotiations or discussions with respect to, any other investment in, or acquisition of, the Company without the prior consent of the lead investor(s).

**Confidentiality:** Until the initial closing of the financing contemplated by this Memorandum of Terms, the existence and terms of this Memorandum of Terms shall not be disclosed to any third party without the consent of the Company and the lead investor(s), except as may be (i) reasonably required to consummate the transactions contemplated hereby or (ii) required by law.

**Conditions precedent:** The investment will be subject to customary conditions, including but not limited to:

- Completion of due diligence to the satisfaction of the investors;
- Negotiation and execution of definitive agreements customary in transactions of this nature;
- Receipt of all required authorizations, approvals and consents;
- Delivery of customary closing certificates and an opinion of counsel for the Company; and
- The absence of material adverse changes with respect to the Company.