

**MEMORANDUM OF TERMS
SERIES A PREFERRED STOCK FINANCING**

This memorandum summarizes the principal terms of the Series A Preferred Stock financing of _____, a California corporation (the “**Company**”).

GENERAL TERMS OF THE FINANCING

Issuer:
Security: Series A Preferred Stock (“**Series A**”)
Amount of Offering: \$
Number of Shares:
Price Per Share: \$_____, payable in cash or conversion of convertible promissory notes
Use of Proceeds: For working capital and general corporate purposes.
Capitalization: The Company’s capitalization immediately prior to (“**Before**”) and immediately after (“**After**”) the sale and issuance of the Series A will be as follows:

	Before		After	
	Number of Shares	%	Number of Shares	%
Common Stock				
Series A				
Option Pool (1)	1,000,000	20%		
Totals:			1,000,000	

(1) The option pool consists of 1,000,000 shares of Common Stock under the 2006 Stock Option Plan (the “Plan”).

**RIGHTS, PREFERENCES AND PRIVILEGES OF PREFERRED STOCK IN
CHARTER**

Dividends: The holders of Series A Preferred Stock (“**Series A**”) shall be entitled to receive on an equal basis noncumulative dividends in preference to the holders of Common Stock (“**Common**”) at the rate of \$0.0757575, per annum, when and if declared by the board of directors.

Liquidation Preference: In the event of any liquidation or winding up of the Company, the holders of Series A shall be entitled to receive on an equal basis in preference to the holders of

Common an amount equal to _____ per share, respectively, plus any declared but unpaid dividends (the “**Liquidation Preference**”). After payment of the Liquidation Preference to the holders of Series A, the remaining assets shall be ratably distributed to the holders of Common, Series A, on a common equivalent basis until the holders of the Series A have received an aggregate per share amount (including the _____). Thereafter, the holders of Common Stock will be entitled to receive all remaining assets. A consolidation or merger or sale of all or substantially all of the assets of the Company shall be deemed to be liquidation or winding up for purposes of the liquidation preference.

Conversion:

Each share of Series A may be converted at the holder’s option at any time into one share of Common Stock, subject to adjustment as provided below.

Automatic Conversion:

The Series A shall be automatically converted into Common at the then applicable conversion rate (i) in the event that the holders of at least 50% of the outstanding Preferred voting together consent to such conversion or (ii) upon the closing of an underwritten public offering of shares of the Company at a per share public offering price (prior to underwriter commission and expense) of not less than \$4.00 per share and for a total offering of more than \$10,000,000.

Conversion Price Adjustments:

The conversion price of the Series A shall be subject to adjustment (i) proportionately for stock splits, stock dividends, recapitalizations, etc., and (ii) on a broad based weighted average basis if the Company issues additional shares of Common equivalents (other than shares of Common Stock issued to officers, directors or consultants of the Company and other customary exclusions) at a price less than the applicable conversion price.

Voting Rights:

Except as provided by law or as indicated below, the holders of Common and Series A shall vote together on all matters presented to the shareholders. The holder of each share of Series A shall have the right to that number of votes equal to the number of shares of Common issuable upon conversion of such shares.

Board of Directors:

So long as at least 500,000 shares of Series A are outstanding, the holders of Series A shall be entitled to elect one director of the Company. The holders of Common shall be entitled to elect the lesser of three directors or all other members of the Board of Directors. The Common, and Series A shall voting together shall be entitled to elect all other directors. Notwithstanding the foregoing, if less than 500,000 shares of Series A are outstanding, then all directors shall be elected by the holders of Common and Series A.

At the closing, the Company's bylaws shall provide for a board of directors of between three and seven directors. Promptly following the closing, the board of directors of the Company will consist of _____.

Protective Provisions:

So long as any shares of Preferred Stock are outstanding, the Company shall not, without first obtaining the approval of the holders of at least a majority of the then outstanding shares of each series of Preferred Stock: (a) alter or change the rights and preferences of the Preferred Stock, (b) create any new class or series of stock having rights, preferences or privileges senior to the Preferred Stock or (c) increase the authorized size of the board of directors to more than nine (9) directors.

TERMS OF PREFERRED STOCK PURCHASE AGREEMENT

General:

The Purchase Agreement will contain such provisions as are reasonable and customary for a transaction of this type, including standard representations and warranties, and conditions to closing.

TERMS OF INVESTORS RIGHTS AGREEMENT

Information Rights:

So long as an investor (and its affiliates) continues to hold not less than 200,000 shares of Preferred Stock or Common issuable upon conversion of Preferred Stock, the Company shall deliver to such investor annual audited and quarterly unaudited financial statements. In addition, each such investor shall also be entitled to standard inspection and visitation rights. These provisions will terminate upon consummation of an acquisition of the Company or the Company's initial public offering.

Registration Rights:

Demand Rights. If, at any time after the earlier of (x) December 31, _____ or (y) six (6) months after the Company's initial public offering, investors holding at least 40% of the outstanding shares of Preferred Stock, including Common issued upon conversion of Preferred Stock ("**Registrable Securities**"), request that the Company file a Registration Statement covering at least 40% of the Registrable Securities (or such lesser percentage if the anticipated aggregate offering price of the shares to be offered is more than \$10,000,000), the Company will use its best efforts to cause each shares to be registered within 120 days following the date of the request. The Company shall not e obligated to effect more than two registrations under these demand right provisions.

Company Registration. The holders of Preferred shall be entitled to "piggy-back" registration rights on all registrations of the Company for its own account subject to the right, however, of the Company and its underwriters to reduce the number of shares proposed to be registered in view of market conditions (a) completely in the event of an initial public offering and (b) to not less than 30% of the securities to be included in any subsequent public offering; provided, however, that in the event of the amount of securities to be registered by the holders of Preferred (the "**Selling Shareholders**") is limited, then the number of shares each Selling Shareholder will be able to register shall be determined on a pro-rata basis.

S-3 Demand Rights. Investors shall be entitled to unlimited registrations on Form S-3 (if available to the Company), provided that (a) no more than one such registration may be effected during any twelve month period or (b) the Company shall not be obligated to effect any such registration unless the anticipated offering price is at least \$500,000.

Expenses. The registration expenses (exclusive of underwritten discounts and commissions) of all registrations shall be borne by the Company.

Transfer of Rights. The registration rights may be transferred to any transferee (other than a competitor of the Company) who acquires (a) all Registrable Securities originally purchased by the transferring investor or (b) at

least 200,000 shares of Registrable Securities; provided the Company is given written notice thereof.

Market Stand-Off. Each investor agrees not to sell any shares of the Company's stock within 180 days of the effective date of public offerings of the Company's securities.

Termination: All registration rights will terminate five years following the Company's initial public offering, or, with respect to each investor, at such time as the Company's shares are publicly traded and the investor is entitled to sell all of its shares in any three month period pursuant to Rule 144.

Right of First Refusal:

Each investor shall have the right in the event the Company proposes to offer equity securities to any person (other than securities issued to directors, employees, consultants, equipment lessors, licensors of technology, financial institutions or other vendors pursuant to arrangements approved by the Board of Directors or other customary exclusions) to purchase that portion of the offered securities equal to the percentage of the outstanding shares of the Common equivalents of the Company held by such investor.