

TERM SHEET
FOR VENTURE CAPITAL FINANCING OF
[COMPANY NAME]

OFFERING TERMS

Company	[Name]
Founder [s]	[Name], [Name], [Name] and [Name]
Investors	[Name], EUR [●], [[●]% on a fully diluted basis] [Name], EUR [●], [[●]% on a fully diluted basis] [on <i>pari-passu</i> terms][as well other investors mutually agreed upon by Investors and the Company].
Amount	Aggregate of EUR [●][, including EUR [●] from conversion of principal [and interest] on loans].
Pre-Money Valuation	<i>Alternative 1:</i> Pre-money valuation of EUR [●] and post-money valuation of EUR [●]. <i>Alternative 2:</i> Pre-money valuation calculated on the basis of enterprise value of EUR [●] (EBITDA of EUR [●] multiplied by [●]x) less net debt [and adjusted for normal working capital] as of Closing.
[Capitalization]	The Company's capital structure before and after the Closing is set forth in <u>Exhibit [●].</u> [The Company's capital structure includes an [unallocated] option pool of [●]% on a fully diluted basis.]
[Price Per Share]	BGN [●] per share on a fully diluted basis [(based on the capital structure set forth in <u>Exhibit [●]</u>)].
Type of Shares	Newly issued [class preferred shares][ordinary shares] (New Shares).
Closing	[Date][As soon as practicable following the satisfaction of the Conditions to Closing.]

INVESTORS' RIGHTS

Liquidation Preference

In the event of a liquidation, merger or other reorganization (other than a merger or reorganization in which shareholders of the Company own a majority by voting power of the shares of the surviving or acquiring company), or an acquisition, sale, lease, license or other disposal of substantially all the assets or a majority of the shares of the Company (**Exit Event**), the proceeds will be distributed as follows:

Firstly, to the Investors the higher of:

- (A) [one] time[s] the price per New Share [and interest on the price per New Share at an annual rate of [●]% for the period from Closing until the Exit Event] [plus declared and unpaid dividends] [minus paid dividends] on each New Share; and
- (B) the amount the Investors would receive if all shareholders received their pro rata share of the proceeds.

Secondly, the balance of any proceeds will be distributed to the remaining shareholders pro rata, excluding the Investors.

Anti-dilution Provisions

In the event the Company issues additional shares at a price per share less than the price per New Share, then the Company will offer to each Investor for subscription such number of additional shares of the same type as the New Shares held by such Investor as determined on a [weighted average] [full-ratchet] basis [as set forth on Exhibit [●]]¹.

The additional shares will be paid [at nominal value].

[On any subsequent down round all [Major] Investors are required to exercise their pre-emption rights to purchase shares from the down round. Any [Major] Investor failing to do so will automatically lose [pro rata] the anti-dilution rights in respect of that down round. A "Major Investor" means any Investor who purchases at least EUR [●] of the New Shares.]²

¹ Both mechanisms are well-known, therefore, one may choose not to exhibit the calculation formulas.

² The pay-to-play concept punishes Investors for not participating in any future down rounds by taking away their anti-dilution protection.

The following share issuances will not trigger anti-dilution adjustment: (i) shares issuable as a dividend on the New Shares; (ii) shares issuable upon the conversion of any loan; (iii) shares issuable upon any sub-division of shares; and (iv) shares (or options to purchase such shares) issuable to employees or directors of, or consultants to, the Company.

Important Decisions

The following matters require the approval of the [majority] of the Investors or the Investors' Director[s]:

*Alternative 1*³: (i) any alteration of the rights and preferences of the New Shares, [(ii) any creation or issuance of new class of shares having rights or preferences superior to or at parity with the New Shares⁴], (iii) any reduction of the capital of the Company, (iv) any acquisition by the Company of its own shares or declaration and payment of dividends of the Company, (v) any change of the number of [directors][board members] of the Company, (vi) any action which results in an Exit Event; (vii) any approval of the budget and the business plan of the Company and the subsidiaries (**Group Companies**), (viii) unless approved in the budget, any acquisition, disposal or encumbrance of any asset of the Group Companies at book or market value of, or any borrowing, lending or guarantee by the Group Companies at book value of, in each case, EUR [●] or more in a single or related transactions, or EUR [●] in aggregate in any one financial year; (ix) unless approved in the budget, any transaction of the Group Companies with related-parties, outside the ordinary course of business or not on arm's length terms; (x) any introduction or amendment of any share option plan or employee share purchase program; (xi) any change of the principal business of the Group Companies, entering into new lines of business, or exit from the current lines of business; and (xii) any restructuring (*преобразуване*) or winding up (*прекръпяване*) of any of the Group Companies or the appointment and dismissal of liquidators (*ликвидатори*) of any of the Group Companies.

Alternative 2: the matters listed in Exhibit [●].

³ Alternative 1 gives the sanitary minimum of important decisions. For a more comprehensive list, please consider Alternative 2. Note that as per Alternative 1 the Investors would not be able to block issuances of new shares if the new shares are ordinary or rank lower than the Investors' preferred shares. In such cases, the Investors would rely on their anti-dilution and pre-emption rights.

⁴ Not required if the Investors do not own preferred shares.

Pre-emption

All Investors will have a pro rata right, based on their percentage ownership of the share capital, to participate in subsequent issuances of shares by the Company (excluding those issuances listed at the end of the "Anti-dilution Provisions" section of this Term Sheet). In addition, should any Investor choose not to subscribe for the total number of shares to which they are entitled pro rata, the remaining Investors will have the right to purchase such remaining shares pro rata.

Right of First Refusal

If a Founder [and any other shareholder holding greater than [1]% of the Company's shares] wishes to transfer any shares to a third party, the Investors will have a right to be offered to purchase such shares first on identical terms⁵.

Co-Sale (Tag-Along)

The Investors will have a pro rata right to participate on identical terms in any transfers of shares to third parties.

Drag-Along

If the majority of the Investors [and the majority of the Founders] wish to transfer all of their shares to a third party or enter, or procure the Company to enter, into an Exit Event, then [subject to approval of the Board of Directors/shareholders' meeting], all other shareholders will transfer all of their shares to such third party and consent to the Exit Event on identical terms, subject to satisfaction of the Liquidation Preference.

[Sale Rights

Upon a written notice from the majority of the Investors, the Company will initiate a process intended to result in an Exit Event.]

[Put & Call Options

The Investors will have the right to sell all of their shares to the Founders after the expiration of [●] years from Closing (put option) and the Founders will have the right to acquire all of the Investors' shares after the expiration of [●] years from Closing (call option) at a price per share based on the equity value of the Company calculated as follows:

- (A) the higher of: (i) the Company's LTM EBITDA calculated pursuant to the last audited [consolidated] financial statements and (ii) the Company's LTM EBITDA calculated pursuant to the

⁵ Founders may also seek ROFR rights with respect to transfers by Investors, in order to be able to have some control over the composition of the investor group.

last four [consolidated] quarterly management financial statements;

- (B) multiplied by [●]x; and
- (C) less net debt [and adjusted for normal working capital] as of closing of the transaction.]⁶

[Departing Founders

Any Founder who, within [36] months from Closing, ceases to be an employee of the Company as a result of such Founder's resignation or dismissal for cause, shall transfer the Relevant Percentage of such Founder's shares at [nominal value][the original subscription price] in the following order of priority:

- (A) [40%] of the Relevant Percentage, to a person or persons nominated by the Board of Directors with the approval of the Investors' Directors';
- (B) [[10%] of the Relevant Percentage, to the Company as an unallocated option pool]⁷; and
- (C) [50%] of the Relevant Percentage, pro rata to the Investors.

"Relevant Percentage" means:

- (A) in the first [12] months from Closing, 100% of the relevant Founder's shares; and
- (B) in months [13] to [36] from Closing, from 75% to 0% of the relevant Founder's shares, decreasing monthly in equal proportions.]

[Board of Directors

The board of directors of the Company will consist of [●] director[s]: the Founders may appoint [●] director[s] and the Investors may appoint director[s] (**Investors'**

⁶ The put option allows Investors to force the Founders to purchase their shares at cost and at a guaranteed (small) rate of return. In practice, put and call options are not often used, especially with regard to early stage financings; however, they do provide a form of exit and some possible leverage over the Founders (in case of put options) or the Investors (in case of call options). The effect of the Put and Call Options may be achieved if the Investors have a redemption preference on their preferred shares. However, redemption preferences might be difficult to regulate.

⁷ Note that if the Company is an AD, the Company may not hold more than 10% of its own shares. If the Company is an OOD, the Company may not hold own shares at all. As an alternative, an option pool of issued shares may be held by one of the Investors under an agreement with the Company.

Director[s]). [The chief executive officer will be appointed by the Founders.]]⁸

Information and Management Rights

The Company will deliver to each Investor: (i) annual, quarterly and monthly financial statements and other financial information as agreed with the Investors; and (ii) prior to the end of each financial year, a comprehensive operating budget forecasting the Company's revenues, expenses and cash position on a month-to-month basis for the upcoming financial year.

[The Company will provide each [Major] Investor (who is not a competitor) with the opportunity to consult with the management of the company, attend meetings of the Board of Directors and inspect the Company's books and records. A "Major Investor" means any Investor who purchases at least EUR [●] of the New Shares.]

DOCUMENTATION

Agreements

Definitive agreements will be drafted by counsel to the Investors and will include customary representations, warranties and covenants by the Company and the Founders and reflect the provisions set forth herein and other provisions typical to venture capital financings.

Non-Competition, Non-Solicitation and Employment Agreements

Each Founder and key employee will enter into a non-competition and non-solicitation agreement [and an employment agreement] in a form reasonably acceptable to the Investors.

Conditions to Closing

Standard conditions to Closing, which will include, among other things, completion of financial, tax and legal due diligence reviews of the Company satisfactory to the Investors [and approval of the transaction by the Investors' investment committees].

Expenses

The Company shall, and the Founders shall procure that the Company shall, pay [at Closing] all costs of the financing, including legal fees not to exceed EUR [●], unless the transaction is not completed because the Investors withdraw their commitment without cause.

OTHER MATTERS

⁸ If the Company is an OOD, it will have "managers" instead of a board of directors. The managers in an OOD cannot function as a board although work arounds are possible.

Exclusivity

The Company and the Founders agree, for [●] days from the last date specified in their signatures below [until [date]], not to request, discuss, negotiate or accept any proposals regarding the sale or other disposal of debt or equity instruments, or an acquisition, sale, lease, license or other disposal of material assets, of the Company, and shall notify the Investors promptly of any inquiries by any third parties with regard to the foregoing.

Confidentiality

The Company and the Founders agree to treat as confidential and not to disclose the terms of this Term Sheet to any person other than the directors, accountants and attorneys of the Company and the Founders, and other potential Investors acceptable to the Investors, without the written consent of the Investors.

Expiration

This Term Sheet expires on [●] if definitive documents not signed by the Company and the Founders by that date.

Applicable Law

This Term Sheet shall be governed by Bulgarian law. All disputes between the parties hereto arising under or in connection with this Term Sheet shall be finally settled in accordance with Bulgarian law.

In consideration of the time and expense devoted and to be devoted by the Investors with respect to this financing, the Exclusivity, Confidentiality, Expenses and Applicable Law provisions of this Term Sheet shall be binding obligations of the Company and the Founders whether or not the financing is consummated. No other legally binding obligations shall be created under this Term Sheet⁹. This Term Sheet is not a preliminary agreement (*предварителен договор*) or commitment to finance and is conditional on: (i) the completion of financial, tax and legal due diligence reviews of the Company that are satisfactory to the Investors; and (ii) the reaching of an agreement on the definitive agreements.

[Remainder of the page intentionally left blank]

⁹ Although the Term Sheet expressly states that it is nonbinding, it may nonetheless create an enforceable obligation to negotiate the terms set forth in the Term Sheet in good faith.

THIS TERM SHEET IS ACKNOWLEDGED AND AGREED BY:

[Investor Name]

Signature: _____

Print Name: _____

Date: _____

[Company Name]

Signature: _____

Print Name: _____

Title: _____

Date: _____

[Investor Name]

Signature: _____

Print Name: _____

Date: _____

[Founder Name]

Signature: _____

Print Name: _____

Date: _____

[Investor Name]

Signature: _____

Print Name: _____

Date: _____

[Founder Name]

Signature: _____

Print Name: _____

Date: _____

[Investor Name]

Signature: _____

Print Name: _____

Date: _____

[Founder Name]

Signature: _____

Print Name: _____

Date: _____

Exhibit [•]

Pre- and Post-Financing Capitalization

Shareholder	Class Shares	Pre-Financing		Post-Financing	
		# of Shares	%	# of Shares	%
[Founder Name]					
[Investor Name]					
Option Pool (Issued)					
Option Pool (Unissued)					
Total					

Exhibit [•]

Anti-dilution Provisions

[*Alternative 1: Weighted average:*

$$N = ((OPS / WA) * Z) - Z$$

Where:

N = the number of additional shares to be issued to the Investor

OPS = the original purchase price

WA = $((OPS * SI) + (DRP * NS)) / (SI + NS)$

SI = the number of shares in issue [plus the aggregate number of unissued shares from an option pool, or which are subject to convertible securities, in each case]¹⁰ immediately before the down round

DRP = the down round purchase price

NS = the number of new shares issued in the down round

Z = the number of original shares held by the Investor before the down round]

[*Alternative 2: Full ratchet*

$$N = (W / DRP) - Z$$

Where:

N = the number of additional shares to be issued to the Investor

W = the total amount subscribed by the Investor for its original shares

DRP = the down round purchase price

Z = the number of original shares held by the Investor before the down round]

¹⁰ The wording in square brackets should be added if broad based anti-dilution protection is required. The wording in square brackets should be deleted if narrow based anti-dilution protection is required. With a narrow based protection, the protected Investors will typically receive more shares than is the case with a broad based protection.

Exhibit [●]

Important Decisions¹¹

- (A) any amendment or supplementation of the statutes of the Company and its subsidiaries (**Group Companies**);
- (B) any increase of the capital of the Company by the issue of new shares where the issue value (*емисионна стойност*) of the new shares is less than BGN [●] per share;
- (C) any increase of the capital of any Group Company which does not fall within the scope of paragraph (B) above and, if applicable, any additional cash contributions to any Group Company;
- (D) any reduction of the capital of any Group Company or any change in the rights attached to the shares or other issued securities;
- (E) any bond (*облигации*) or convertible bond (*конвертируеми облигации*) issues by any Group Company or any mezzanine financing to any Group Company;
- (F) any restructuring (*преобразуване*) or winding up (*прекротяване*) of any Group Company or the appointment and dismissal of liquidators (*ликвидатори*) of any Group Company;
- (G) any appointment or dismissal of [directors][board members] or any persons having power of full commercial representation (statutory or under a power of attorney) of [the Company][any Group Company];
- (H) the determination of the remuneration of the [director[s]][any non-executive (*неизпълнителни*) board members] or any persons having power of full commercial representation (statutory or under a power of attorney) of [the Company][Group Companies] and their entitlement to receive part of the profit, shares or bonds (*облигации*) in the Group Companies;
- (I) any release of liability of any [director][board member] of [the Company][any Group Company];
- (J) any appointment or dismissal of auditors of any Group Company;
- (K) any alteration of the accounting principles in respect of any Group Company;
- (L) the approval of the audited annual financial statements, distribution of more than [●] percent of the annual profit and supplementation of the reserve fund (*фонд "Резервен"*) in respect of each Group Company;
- (M) any acquisition by the Company of its own shares;

¹¹ Note that different approval majorities may be assigned to different decisions, especially where the decisions overlap (eg, under paragraphs (B) and (C)).

- (N) any change of the principal business of the Group Companies, entrance into new lines of business, or exit from the current lines of business;
- (O) any acquisition of any shares in other companies or any transfer of shares in any of the Group Companies;
- (P) the creation of any encumbrance over any shares of any Group Company;
- (Q) the introduction or amendment of any share option plan or employee share purchase program;
- (R) the taking of any action which results in an Exit Event;
- (S) the approval of the budget and the business plan or any alteration of the approved budget or business plan of the Group Companies;
- (T) unless approved in the budget, any acquisition or disposal (including by licence or a long-term lease) or encumbrance by any Group Company of any asset, in each case at book or market value of EUR [●] or more, or where such acquisition or disposal or encumbrance would cause the aggregate value for all such acquisitions or disposals or encumbrances by all Group Companies to exceed the book or market value of EUR [●] in any one financial year;
- (U) unless approved in the budget, any borrowing or lending or guarantee by any Group Company at book value of EUR [●] or more, or where such borrowing or lending or guarantee would cause the aggregate value for all borrowings or lendings or guarantees by all Group Companies to exceed the book value of EUR [●] in any one financial year;
- (V) unless approved in the budget, any entry into, termination or variation of any contract or arrangement:
 - (i) between any Group Company and any shareholder, director or employee of any Group Company, or any affiliate of such shareholder, director or employee, or a third party in which such shareholder, director, employee or affiliate is interested, or
 - (ii) which is outside the ordinary course of business or other than on arms' length terms; and
- (W) any commencement, compromise, settlement or waiver of right in relation to any litigation, arbitration or similar proceedings with value of EUR [●] or more.