

COPY NO. _____

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**NEWCO INC.
CONFIDENTIAL TERM SHEET
MAY 16, 2011**

**OFFERING OF \$XXX,000 INVESTOR-CLASS COMMON EQUITY
WITH LIMITED VOTING RIGHTS
X00 CLASS B SHARES, SERIES A (WITH LIMITED PREEMPTIVE
RIGHTS)
\$X00 PER SHARE**

**THIS CONFIDENTIAL TERM SHEET DOES NOT CONSITUTE AN OFFER OF
THE SALE OF SECURITIES. NO OFFER OF INVESTMENT WILL BE
ACCEPTED UNLESS NEWCO, INC. HAS FIRST RECEIVED AN INVESTOR
QUALIFICATION AND CONFIDENTIALITY STATEMENT AND A
SUBSCRIPTION AGREEMENT.**

**IN THE EVENT OF ANY DISCREPANCY BETWEEN THE TERMS AS
DESCRIBED IN THIS TERM SHEET AND IN THE COMPANY'S BYLAWS OR
THE FORM OF SHARE CERTIFICATE, THE TERMS OF THE BYLAWS (OR,
IF MORE DEFINITIVE, THE SHARE CERTIFICATE) WILL BE GIVEN
EFFECT**

**Summary of
the Offering:**

An offering by the issuer, a newly-formed [State] corporation based in [City], [State], of common equity under an A/B share structure whereby founders and company management are able to exercise independent judgment and make key decisions notwithstanding the sale of economic interests to non-management investors, through the issuance of a second class of shares that has limited voting rights but otherwise shares in all benefits of common share ownership (i.e., dividends and liquidation preferences) with the management holders of the class of shares in which full voting rights are vested. This capital structure is modeled on the example of the New York Times [See <http://solari.com/blog/?p=1474>.]

Amount of Offering: \$XX,000 – XXX,000, based upon investor interest and depending on the scale of start-up operations.

Shares Offered and Closing Date:

Up to \$XXX,000 shelf offering with rolling acceptance of subscriptions for shares with a final closing by [Date]: Class B common stock with limited voting rights and subject to restrictions on transfer (“Class B Shares”).

The Company will have the option to extend the final closing date, and to increase the offering amount, based upon investor response, in its sole discretion and without any offer of rescission to committed purchasers.

Expected Capital Structure Post-Final Closing:

Class A Common Shares (management class)		Class B Common Shares (investor class)	
<u>Authorized</u>	<u>Issued*</u>	<u>Authorized</u>	<u>Issued**</u>
Y00	XX	Y,000	X,000

* [Information on management share holdings]

Each holder of Class A Shares will derive economic benefits through his or her holdings of Class B Shares. Additional Class A shares may be authorized or issued upon the vote of holders of at least XX% of Class A Shares (a “super-majority vote”).

**Includes the following shares held by Class A shareholders and strategic partners:

[Percentage interests of management and strategic partners]

Following the final closing of the offering of Class B Shares to investors, XX% of the authorized and issued Class B Shares will be held by management and certain employees and strategic partners, ZZ% of the authorized and issued Class B Shares will be Treasury shares, and UU% of the authorized and issued Class B Shares will be sold or held for sale to investors. Treasury shares may be used for future sales to investors or issuance to management, employees and strategic partners for incentive compensation purposes, as determined according to the Bylaws. A super-majority vote of the Class A Shares will be required for the transfer of Class B Shares held in the Treasury or for the issuance of authorized but unissued Class B Shares (of which management expects there to be Z,000 at the final closing of the offering of Class B Shares to investors).

Characteristics of

Class A Shares: Management shares, eligible to be held initially solely by management and founders and thereafter as determined by supermajority vote of the holders of Class A Shares (such holders being referred to as “qualified” Class A shareholders). Class A Shares automatically will become Treasury shares if acquired by any non-qualified Class A shareholder. Each Class A Share entitles its holder to one vote on all matters except those expressly reserved for holders of Class B Shares. Class A shareholders are entitled to elect all members of the board of directors.

Characteristics of Class B Shares: Non-management (investor class) shares, which account for 100% of economic benefits of the Company. Each Class B Share entitles its holder to one vote on the limited matters on which Class B shareholders are entitled to vote under the Company’s Bylaws.

At such time as Company operations have matured to the point at which holders of Class A Shares determine it is in the interests of the Company to appoint an Advisory Board, holders of Class B Shares will have right to submit names of individuals to serve as members of Advisory Board, from which the holders of Class A Shares may select at least one Advisory Board member in their reasonable discretion.

Additional Share Attributes:

Limited preemptive rights: At any time after the earlier of (a) the closing of this offering or (b) [Date] (the “Preemptive Rights Start Date”), holders of Class B Shares, Series A will have the right to purchase, at the offering price, the percentage of any newly-issued Class B Shares sufficient to maintain their respective percentage interests in Class B Shares. For example, if on the Preemptive Rights Start Date a holder of Class B Shares, Series A holds 10% of Class B Shares, such shareholder will be entitled to purchase 10% of any future Class B Share offerings. The respective interests of Class B shareholders in total Class B Shares may be diluted in the future by issuance of Treasury shares held for incentive compensation purposes and therefore reduce the percentage interest as to which any holder of Class B shares, Series A initially has preemptive rights.

Registration rights: Class B shareholders have a right to “piggyback” registration of their Class B Shares at the Company’s expense upon any registration of Newco, Inc. Class B Shares for offer to the public, which registration may not ever occur or may not occur in the near future.

Information rights: Class B shareholders will be provided with copies of the Company's unaudited financial statements annually by email each March 31 (assuming the Company's annual tax return filing is not extended, in which case the statements will be emailed to shareholders within 15 days after filing). If the Company is required in the future to produce annual audited financial statements, Class B shareholders will receive copies of such audited reports. The Company's fiscal year end is December 31.

Restrictions on transfer: Class B Shares may not be transferred except upon:

(a) registration or perfection of an exemption from registration with regulatory authorities under applicable federal and state securities laws (depending upon the jurisdiction of sale and/or the jurisdiction of residence of the purchaser) and

(b) approval of the sale by a super-majority vote of the board of directors of the Company.

A Class B shareholder may be permitted, at the reasonable discretion of management, to change the registered owner of his or her shares for estate planning purposes to a family trust or other similar record holder so long as the beneficial ownership remains under the control of the original shareholder.

Right to approve/disapprove selection of auditor: Class B shareholders will be entitled to vote as a separate class to approve or veto the choice by the Class A shareholders of the Company's independent auditors if such approval is submitted for a Class A shareholder vote (which would happen, for example, if the Company were to go public).

Right to approve merger, acquisition or similar major transaction in which Newco, Inc. insiders are individually benefited (i.e., where there is a potential conflict of interest): Approval by a majority in interest of holders of Class B Shares will be required for the taking of any of the following actions as provided more fully in the Bylaws:

(a) amendment of the Company's Charter in a manner that would materially, adversely affect the rights of holders of Class B or any series of Class B Shares, including, for example, the removal of preemptive or similar rights of a series of Class B shareholders;

(b) any merger, consolidation or similar recombination transaction with another company or sale of a substantial share of the assets of the Company other than in the ordinary course of business;

(c) any significant transaction or other business dealing with an officer, director or affiliate of the Company that could reasonably result in a conflict between the interests of Class A shareholders and Class B shareholders;

(d) any material and adverse change to the voting rights of the Class B stockholders; and

(e) any liquidation or dissolution of the Company.

Issuance of Additional Class B Shares: A super-majority vote of holders of Class A Shares will be required for the issuance of additional Class B Shares.

**Terms of Payment
for Shares:**

Payment in full for the Class B Shares will be made by electronic funds transfer or certified or cashier's check payable to "Newco, Inc." or other payment arrangement satisfactory to the Company. Wiring instructions are included in the Subscription Agreement.

Financial Advisor:

Financial Advisor, Inc. will provide financial advisory services in connection with the offering.

**Expenses of
Offering:**

The Financial Advisor will be entitled to be compensated in the form of Class B Shares in the amount of ____% of the Class B Shares issued at completion of this offering, calculated assuming all Class B Shares are sold as provided in this Term Sheet and based on a valuation of Newco, Inc. total equity at \$XXX,000. **[Alternative: The Financial Advisor will be entitled to a financial advisory fee equal to X% of the offering proceeds/\$YY,000 for services provided in connection with the offering.]**

The [founders] will pay all legal fees and selected costs to obtain tax and accounting advice for the offering. **[Alternative: legal and accounting expenses of the offering will be paid from offering proceeds and are expected to amount to approximately \$XX,000.]** The Company expects that all other out-of-pocket costs of the offering (e.g., for stock certificates and

printing offering and subscription documents), payable, either directly or by reimbursement to members of management who have advanced such costs, from offering proceeds, will be less than \$X00.

Investor Qualification Criteria:

Each investor in Class B Shares will be required to execute an Investor Qualification and Confidentiality Statement demonstrating that he or she is qualified to invest in Class B Shares and to represent that he or she is purchasing for investment and not with a view to resale of Class B Shares. See the Investor Qualification and Confidentiality Statement for more details.

THE NEWCO BUSINESS

Founder's Description of Business Concept:

jkldf'jfl;dasjgfkldsjflk;dsjf

Product Description:

jkld;fjdkl;sfjdl;fjl;dfjld

Marketing Plan:

jkfdj;lsjdf;lsfl;ajdlfa

Competition:

jfkdl;afjdl;afjdkl;fjl;sdal;fdk

Community:

fjks;afjdl;sfjls;afjl;dsl;

Key Clients/ Relationships:

fjdklsfjl;dsfjldjflk;l;fl;alkds

Strategic Partners:

jfdkl;sfjdkls;afjl;afdjlfdl

Potential Future Employees:

fklsa;fjsadl;fjdkl;fl;dfilas

Other Business Relationships:

CPA Firm – jfdkl;fjdl;fjl;dsadfl;.
Bank – fjks;fjcklsfjldk;fldsaasdj

Board of Directors:

The Bylaws of the Company provide for up to [number] directors. The following are the current members of the board of directors:

- Jgklsafklas;

- Fjdkl;fjdlfl
- Jfdklsfjklads;fl;a
- Fjdklfjdsl;k

Management and Employees:

[Name], Chairman, Secretary, Treasurer and Chief Executive Officer, who will manage the business on a day-to-day, full-time basis, although she will continue to devote approximately ____ hours per ____ to her role as [title] of [company/association] (see below).

[Background and competencies]

[Name], husband of [Name], will serve as Vice-President of the Company responsible for jkljll;l;. Fjkasfjdsakl;fjadls;fjadls;fs;lk

[Name], son of [Name] and [Name], will be an officer of the Company and the employee responsible for operations. Jfdlafjkl;fjkl;dflcls;df

[Name], daughter of [Name] and [Name] will be an officer of the Company and the employee responsible for marketing of the business.
H;fjal;sfjkl;dsjfl;sjfld;sjls;a

Use of Proceeds:

The initial \$XX,000 in proceeds will be expended as follows:

Production and equipping of fjkd;asfdkl;s at \$X,000 each: \$XX,000

Travel, delivery and set-up: \$XX,000

Marketing literature: \$X,X00

Reimbursement of founders' legal costs for patent and trademark applications: \$XX,000

One full-time employee and one part-time employee for site installation and marketing, through [Current year]: \$XX,500

Equipment, bookkeeping and reserves: \$XX,000

Other: \$X,000

[CEO Name] has agreed to defer her initial modest first-year compensation of \$XX,000 following the first sale of Class B Shares until the board of directors believes the Company has sufficient offering proceeds and revenues to support her salary, which will be subject to increase when revenues permit. [Son name] and [Daughter Name] initially will be compensated at \$XX,000, a portion of which will be similarly deferred.

If less than the full minimum offering amount is subscribed, proceeds may be used to pay only for the patent and trademark applications, the prototype and equipment, depending upon the amount raised. In that event, start-up

operations may be delayed somewhat due to the limited time that employees may have to devote to the business.

Projected First Year Expenses:

<i>Item</i>	<i>Cash</i>	<i>Accrual</i>	<i>Payroll/Benefits Additional Cost</i>
Equipment (home office)	\$ XX,000		
Phone center (one year)	\$ XX,000		
Custom software	---	Stock*	
Website**	\$ X,000	Stock*	
Salaries	\$ XX,000	\$X0,000	\$X0,000
Bookkeeping	\$ X,000		
CPA	\$ X,000		
Legal	\$ XX,000		
Insurance	\$ X,000		
Travel	\$ X,000		
Supplies	\$ X,000		
Working capital***	<u>\$ XX,000</u>		
TOTAL	<u><u>\$XXX,000</u></u>		

* [Name of strategic partner] will receive stock in exchange for their software development and other services as provided above under “Expected Capital Structure Post-Final Closing.”

**Website development and interface, online store and merchant account, including first year ongoing fees.

*** Includes costs of jkfldsfkl;das, and miscellaneous offering and marketing expenses (e.g., printing of offering and marketing materials and state filing fees).

**Dividend Policy/
Expectation:**

The Company is young and growing. The Class A shareholders expect to declare no dividends for the foreseeable future.

Tithing:

The Bylaws of the Company provide that it may tithe up to ten percent of its annual income to one or more religious or charitable organizations.

Investment Risks:

Economic: The current economic downturn has adversely affected the jkl;jlj;k business generally, with many opting for jkljkl;. Whether this trend will translate into a marketing benefit for Newco products is difficult to predict, however. On the other hand, klgfafll;sds. Thus, it is uncertain whether extended downturn would hurt or benefit the Company. Changes in rates of fldfldsl; could affect market for basic Newco services. A severe

downturn in the local or regional economy also could adversely affect Company revenues, the size of the market for Company services and the supply of talented labor available to the Company. A rise in inflation could result in higher costs for materials, technical services and other Company expenses.

Competition: Although patent protection is intended to be broad, this will not prevent competition. Large, well-funded corporations have more resources to invest and could take market share from the Company if Newco is successful, particularly if business opportunities expand faster than the Company can expand its operations.

Loss of a Strategic Partner or Key Supplier/Client; Credit Risk Management does not anticipate that any one client will account for a significant portion of Company business, but “big box” buy-outs and consolidations in significant numbers could adversely affect growth of the potential market. So far, most of the consolidations in the klkljkljll; business have consisted of klkl’;’ companies’ taking over jklj;ljl;l companies in the North, but this trend could spread to the South. There is no single supplier upon which Company will be dependent, but a big increase in the price of components could require price hikes or reduce profits. We believe we have sufficient redundancy in our networks so that the loss of key strategic partner should not be a serious blow. The [city] area includes jljl;l;jlkkjklj; communities with significant jkljkljkljl;; skills, a significant supply of jfklajfk;dsajfkl;ajlsk products and manufacturing companies that produce building components, making market costs to produce company products competitive. Changes in local market demographics and business opportunities may adversely affect these conditions, however.

Legal/Regulatory: Management is not aware of pending regulation that could affect Newco specifically or the jkjljk;jk;lkkj; business generally. Technical malfunctions or errors, loss of information, and data compromise also could result in damaged client relations and litigation. An international name search for “Newco” has been conducted, but this is not a guarantee of trademark issuance. The Company has obtained a preliminary patentability search and opinion letter from patent counsel and has a patent pending, but there is no guarantee that no competing product exists or that the applied-for patent will be granted, or granted in its current form.

Acts of God/Intentional Subversion: [State] experiences extreme weather conditions from time to time. The Company’s goal is to expand information security to distant locations as funding

permits. In the meantime, the Company has local servers to store information off-site for security purposes. If the Internet were to go down completely, the Company would have to jlj;jkl;l;jkljkl;jjjj, increasing Company costs and potentially damaging data retrievability. A software virus could compromise data, as could other malicious activities of competitors or others wishing to do harm.

Tax: Management is unaware of any tax risks specific to this type of business, but new legislation could adversely affect the viability of the business or clients' business, particularly changes that would adversely affect small business profitability.

Loss of Key Personnel: Loss of [name] as the CEO of the Company would be a tremendous short-term loss for the Company. Nevertheless, the founding group consists of a young development team well versed in process and prepared to assume multiple roles within company operations and management, so loss of any one member may not set back the Company's operations greatly. The Company does not plan to purchase key man insurance.

Industry-related Risks: Consolidation could reduce the jklfkl;jfkldjfl;dafkl;sa market or make it more attractive for larger competitors. Customer service is key, so damaged relationships as a result of data/process problems or third-party intentional subversion could result in high customer service costs and damaged public relations. Breach of confidentiality would be bad for business. There may be software and hardware risks: new technological developments may render components of the Newco [product] obsolete and require additional investment in equipment and product research and development.

Illiquidity:

Class B Shares will not be freely tradable under the structure proposed. There will be a limited market for Class B Shares among existing investors and management. Should an initial public offering ("IPO") take place, it is anticipated that a market for Class B Shares would develop. There is no assurance that an IPO will occur in the near future, or at all. In any event, Shares of Newco will likely not be liquid. Class B Shares are restricted shares and may not be sold or transferred except upon approval of the board of directors.

Dilution:

The issuance of Class B Shares in exchange for services of founders and management and as incentive compensation to management, employees and strategic partners will have the effect of diluting the remaining shares Class B Shares.

**Securities Law
Matters:**

Neither Class A nor Class B Shares will be registered under federal law. This offering is being made pursuant to an exemption from registration requirements for direct sales by the issuer not involving a public offering to qualified investors who are purchasing their shares for investment and not with a view to resale.

Legal Matters:

No legal opinions will be provided to investors in Class B Shares.

**Confidentiality of
Offering:**

The terms of this offering, including the business and marketing plan, proprietary products and services to be offered by the Company and other matters described in this Confidential Term Sheet and disclosed to both prospective investors and actual Class B shareholders constitute confidential proprietary information owned by Newco, Inc. the disclosure of which may adversely affect the Company's future business prospects and profits. By acceptance of this Confidential Term Sheet, as indicated by signing an Investor Qualification and Confidentiality Statement, prospective investors are agreeing to be bound to keep the contents of this Confidential Term Sheet and any and all other information disclosed to them about the Company and its plans confidential. Should they choose not to invest, recipients of this Confidential Term Sheet agree to shred and/or delete all records of information obtained in connection with this capital raising.

Recipients of this Confidential Term Sheet are asked to use discretion in sharing their enthusiasm about an investment in the Company. Please contact the Company if you have any question about what is confidential or if you would like to make introductions to potential future clients of the Company.

**Confidentiality
Agreement re:
Patent:**

On [date], Newco filed an application for a patent on its system and method of jfklds;fjdkal;sfjdklsfdklfl;s. Pending patent approval, the Investor Qualification and Confidentiality Statement signed by prospective investors as a condition to receiving this Confidential Term Sheet will remain in effect as to patent matters whether or not an investment is made in securities of Newco.

**Additional
Information:**

Prospective investors who have demonstrated their qualification to purchase Class B Shares by submitting satisfactory Investor

Qualification and Confidentiality Statements will be provided additional information by email, including:

- “Newco: Our Story”
- Photograph of Newco [product]
- Form of share certificates for Class A and Class B Shares
- Copy of Newco Charter and Bylaws
- Form of Subscription Agreement

Contact:

[name], CEO, Newco, Inc.
[telephone number]
jljklklkl@newco.net.

[name], Financial advisor to Newco, Inc.
[telephone number]
kldfl;dsafl;’@financialadvisor.com