

INCEPTION MICRO ANGEL FUND, LLC

CONVERTIBLE PROMISSORY NOTE AGREEMENT

This term sheet summarizes the principal terms of a potential private placement of preferred shares of _____ (the "Company") with The Inception Micro Angel Fund, LLC ("IMAF"). This term sheet is intended solely as a basis for further discussion and is not intended to be and does not constitute a legally binding obligation. No legally binding obligations will be created, implied, or inferred until the Convertible Note and Preferred Stock Purchase Agreement are executed and delivered by all parties. Without limiting the generality of the above, it is the parties' intent that, until that event, no agreement shall exist among them and there shall be no obligations whatsoever based on such things as parole evidence, extended negotiations, "handshakes," oral understandings, or courses of conduct (including reliance and changes of position).

The Company and the Investors are discussing a private placement of preferred stock on the following terms:

	Inception Micro Angel Fund, LLC Proposal
Amount of Convertible debt	\$ _____ aggregate offering maximum.
Type of Security	\$ _____ of secured, Convertible Promissory Notes, convertible at any time into stock of the Company (the "Convertible Note" or "Note").
Closing	The investment will be made in one tranche: <ul style="list-style-type: none"> - \$ _____ at the closing (the "Closing") of the Convertible Note occurring on or around _____, 2005, or at such other time as the Company and Investors shall mutually agree; - Balance of tranche payments to be agreed upon by both parties. IF APPLICABLE
Capitalization	The Company's post-closing capitalization, assuming an investment in this private placement of \$ _____, shall be as set forth on <u>Exhibit A</u> .
Use of Funds	Working capital purposes.
Rights, Preferences, Privileges, and Restrictions of Convertible Notes	
Note Maturity	If not converted, all principal and interest are due <u>30 months</u> after issuance ("Maturity Date") or on demand if an event of default has occurred prior to maturity.

Interest Rate of Note	The holders of the Notes will be entitled to receive interest at the annual rate of 8.0% of the principal balance of the Note, payable on the first anniversary date of the Notes and quarterly thereafter.
Prepayment	The Convertible Note may not be prepaid without the consent of IMAF.
Events of Default	<p>The Convertible Note will contain default provisions satisfactory to IMAF, including, but not limited to:</p> <ul style="list-style-type: none"> (i) failure to pay principal or interest on the Note or any other amount due under the Convertible Note. (ii) failure to comply with any of the covenants or other terms of the Convertible Note. (iii) breach of any representation or warranty in the Convertible. (iv) events of bankruptcy of the Company or any subsidiary; and (v) material judgment against the Company or any subsidiary.
Protective Provisions	<p>As long as the Convertible Note is outstanding, without the approval of the holders of the Convertible Notes, except as otherwise required by applicable law, the Company will not take any action that:</p> <ul style="list-style-type: none"> (i) effects the sale, lease, license, or other disposition of all or substantially all (to be defined in Shareholder documents) of the Company's assets, or which results in the holders of the Company's capital stock prior to the transaction owning less than 50% of the voting power of the Company's capital stock after the transaction. (ii) authorizes any merger, consolidation or share exchange between the Company and another entity. (iii) uses the proceeds of this financing transaction for any other purpose other than for working capital purposes. (iv) authorizes the voluntary or involuntary liquidation, dissolution or winding up of the Company or its business.

	<p>(v) authorizes issuance of any debt securities or instruments on behalf of the Company.</p> <p>(vi) any other affirmative and negative covenants customary for similar financing transactions.</p>
Automatic Conversion on “Threshold Financing”	<p>The Notes will be required to be converted into stock of the Company upon the occurrence of a “Threshold Financing.” A “Threshold Financing” will be a sale of stock by the Company (other than to employees, officers, directors, or advisors) aggregating \$1,000,000 or more. The conversion will be into stock of the same class and series as issued in the Threshold Financing. The total number of shares into which Notes may be converted will be determined by dividing the balance of the Note (principal plus accrued and unpaid interest) by the conversion price which shall be equal to the per share price of the stock issued in the Threshold Financing.</p>
Automatic Conversion on “IPO”	<p>The Notes will be required to be converted into stock of the Company upon the occurrence of an underwritten initial public offering (“IPO”) in which the public offering price is at least \$5.00 per share of common stock (or its equivalent) and the gross proceeds to the Company are at least \$5,000,000. The total number of shares into which the Notes may be converted will be determined by dividing the balance of the Note (principal plus accrued and unpaid interest) by the conversion price which shall be equal to the per share price of the stock issued in the Threshold Financing.</p>
Elective Conversion	<p>The holders of Notes may elect to convert the Note into shares of the Company’s Series A Preferred Stock or into shares of the Company’s common stock at any time such shares may exist if not automatically converted by the “Threshold Financing” paragraph above. The conversion price upon an elective conversion will be at the same rate as the Series A Preferred when created or the then fair market value of the common stock, as applicable.</p>
Security Interest	<p>The Notes shall be secured by a first lien security interest in all tangible and intangible assets of the Company.</p>
Board of Directors	<p>IMAF will have the right to appoint one observer to attend each board meeting.</p>

Fees	<p>Upon closing, the Company will bear all legal and other expenses with respect to the negotiation and closing of the Convertible Note, including reasonable fees and expenses of counsel to the Investors and related due diligence expenses incurred by the Investors. The amount of proceeds from the Convertible Note that may be used by the Company to pay for transaction fees and expenses shall be capped at 5% of the face amount of the Convertible Note, and all other transaction fees and expenses shall be paid by the principals of the Company. All transaction documents relating to the issuance of the Convertible Note shall be prepared by counsel for the Investors.</p> <p>Warrants to purchase _____ shares of common stock, with an exercise price of \$0.01 per share, will be issued to IMAF, in consideration of due diligence and term sheet negotiation in this transaction.</p>
Confidentiality	<p>The parties hereto (including their directors, partners, officers, employees and agents) agree to retain in confidence all information contained in this Term Sheet and any information transmitted between the parties pursuant to it, and further agree that they will not use for their own benefit and will not use or disclose to any third party, or permit the use or disclosure to any third party of, any information obtained from or revealed by the other.</p>
Business Plan	<p>The Company will prepare an annual business plan, with financial projections, for Board approval, no later than thirty (30) days prior to the beginning of each fiscal year.</p>
Key Man Insurance	<p>The Company will have obtained "key man" life insurance on the lives of _____ in an amount not less than \$1,000,000, naming the Company as beneficiary.</p>
Governing Law	<p>North Carolina</p>
Other Conditions	<p>As a condition to this Convertible Note, the Company must have entered into a binding Employment Agreement, with noncompete provisions, with _____ IF APPLICABLE</p>
Effective Date	<p>_____, 2005</p>

Each of the undersigned has executed this term sheet as of _____, 200__.

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____