

Note: This document is provided for educational purposes only. If you need to draft a convertible note, consult your attorney!

<your company name>

NOTE AND WARRANT PURCHASE AGREEMENT

<month> __, 200_

EXHIBIT A Convertible Promissory Note

EXHIBIT B Form of Warrant to Purchase Shares of Series A Preferred Stock

NOTE AND WARRANT PURCHASE AGREEMENT

THIS NOTE AND WARRANT PURCHASE AGREEMENT (this "Agreement") is made as of <month> __, 200_, by and between <your company name>, an Oregon corporation (the "Company"), and _____ (the "Note Purchaser").

WHEREAS, the parties anticipate the closing, or the series of closings, of the sale of shares of the Company's Series A Preferred Stock (the "Series A Stock") yielding aggregate gross proceeds to the Company of at least \$500,000 (the "Series A Closing");

WHEREAS, the Note Purchaser intends to provide an amount of _____ (\$_____) to the Company;

WHEREAS, the parties intend for the Company to issue in return for such consideration a convertible promissory note and a warrant to purchase shares of the Series A Stock;

WHEREAS, the parties hereto wish to provide for the sale and issuance of such note and warrant in return for such consideration;

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein, the parties hereby agree as follows:

1. Amount and Terms of the Note and Warrant.

1.1 Promissory Note.

The Note Purchaser agrees, on the terms and subject to the conditions specified in this Agreement, to purchase, and the Company agrees to sell, a convertible promissory note in the form attached hereto as Exhibit A (the "Note"). The Purchaser shall pay as consideration for the Note, and the Note shall be in the principal amount of, _____ Dollars (\$_____) (the "Principal Amount"). The Note shall be dated as of the date such consideration is provided to the Company.

1.2 Closing.

The closing (the "Closing") of the purchase of the Note in return for the consideration shall be held at the offices of <your law firm>, <your law firm's address>, at <time>., <month> __, 200_. At the Closing, the Note Purchaser shall deliver the consideration to the Company and the Company shall deliver to the Note Purchaser an executed Note.

1.3 Warrant.

Upon the Series A Closing, if any, the Company shall issue to the Note Purchaser a Warrant to purchase shares of Series A Stock in the form attached hereto as Exhibit B (the "Warrant") for the number of shares of Series A Stock calculated by dividing 15% of the Principal Amount by the price per share paid by the investors in the Series A Closing (the "Warrant Shares"). The per share exercise price of the Warrant will be the price per share paid by the investors in the Series A Closing. The Company will remain obligated to issue the Warrant upon the Series A Closing, if any, independent of whether the Note is outstanding at that time.

1.4 Subsequent Sales of Notes and Warrants.

The Company may sell and issue additional Notes and Warrants to such future persons and in such amounts as it shall select.

1.5 Conversion of Note.

The Note is subject to conversion into Series A Stock as provided in the Note.

2. Representations and Warranties of the Company.

In connection with the transactions provided for herein, the Company hereby represents and warrants to the Note Purchaser that:

2.1 Organization, Good Standing, and Qualification.

The Company is a corporation duly organized, validly existing, and in good standing under the laws of the State of Oregon and has all requisite corporate power and authority to carry on its business as now conducted and as proposed to be conducted. The Company is duly qualified to transact business and is in good standing in each jurisdiction in which the failure so to qualify would have a material adverse effect on its business or properties.

2.2 Authorization.

All corporate action on the part of the Company, its officers, directors, and stockholders necessary for the authorization, execution, and delivery of this Agreement, the performance of all obligations of the Company hereunder, and the authorization, issuance (or reservation for issuance), and delivery of the Note and Warrant has been taken or will be taken prior to the Initial Closing. This Agreement, the Note and the Warrant, when executed and delivered by the Company, shall constitute valid and legally binding obligations of the Company, enforceable in accordance with their terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

2.3 Valid Issuance of Warrant Shares.

The Warrant Shares, when issued, sold, and delivered in accordance with the terms of the Warrant for the consideration expressed therein, will be duly and validly issued, fully paid, and nonassessable and, based in part upon the representations of the Note Purchaser in this Agreement, will be issued in compliance with all applicable federal and state securities laws.

3. Representations and Warranties of the Note Purchasers.

In connection with the transactions provided for herein, the Note Purchaser hereby represents and warrants to the Company that:

3.1 Authorization.

This Agreement constitutes the Note Purchaser's valid and legally binding obligation, enforceable in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies.

3.2 Purchase Entirely for Own Account.

The Note Purchaser acknowledges that this Agreement is made with the Note Purchaser in reliance upon the Note Purchaser's representation to the Company that the Note, the shares to be issued upon conversion of the Note, the Warrant and the Warrant Shares (collectively, the "Securities") will be acquired for investment for the Note Purchaser's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that the Note Purchaser has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, the Note Purchaser further represents that it does not have any contract, undertaking, agreement, or arrangement with any person to sell, transfer, or grant participations to such person or to any third person, with respect to the Securities. The Note Purchaser represents that it has full power and authority to enter into this Agreement.

3.3 Disclosure of Information.

The Note Purchaser acknowledges that it has received all the information it considers necessary or appropriate for deciding whether to acquire the Securities. The Note Purchaser further represents that it has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Securities.

3.4 Due Diligence

The Note Purchaser has been solely responsible for its own due diligence investigation of the Company and its business, and its analysis of the merits and risks of the investment made pursuant

to this Agreement, and is not relying on anyone else's analysis or investigation of the Company, its business or the merits and risks of the Securities other than professional advisors employed specifically by the Note Purchaser to assist such Investor.

3.5 Access to Information

The Note Purchaser believes it has been given access to full and complete information regarding the Company, including, in particular, the current financial condition and lack of tangible assets of the Company and the risks associated therewith, and has utilized such access to its satisfaction for the purpose of obtaining information about the Company; particularly, the Note Purchaser has either attended or been given reasonable opportunity to attend a meeting with the founders and senior executives of the Company, for the purpose of asking questions of, and receiving answers from, such persons concerning the terms and conditions of the offering of the Securities and to obtain any additional information, to the extent reasonably available, necessary to verify the accuracy of information provided to the Note Purchaser about the Company. No such investigation, however, shall qualify in any respect the representations and warranties of the Company in this Agreement.

3.6 Sophistication; Investment Experience

The Note Purchaser, either alone or with the assistance of its professional advisor, is a sophisticated investor, is able to fend for itself in the transactions contemplated by this Agreement, and has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the prospective investment in the Securities. The Note Purchaser represents it has not been organized solely for the purpose of acquiring the Securities.

3.7 Suitability

The investment in the Securities is suitable for the Note Purchaser based upon its investment objectives and financial needs, and the Note Purchaser has adequate net worth and means for providing for its current financial needs and contingencies and has no need for liquidity of investment with respect to the Securities. The Note Purchaser's overall commitment to investments that are illiquid or not readily marketable is not disproportionate to its net worth, and investment in the Securities will not cause such overall commitment to become excessive.

3.8 Professional Advice

The Note Purchaser has obtained, to the extent it deems necessary, its own professional advice with respect to the risks inherent in the investment in the Securities, the condition of the Company and the suitability of the investment in the Securities in light of the Note Purchaser's financial condition and investment needs.

3.9 Ability to Bear Risk

The Note Purchaser is in a financial position to purchase and hold the Securities and is able to bear the economic risk and withstand a complete loss of its investment in the Securities.

3.10 High Degree of Risk

THE NOTE PURCHASER RECOGNIZES THAT THE INVESTMENT IN THE SECURITIES IS AN INVESTMENT INVOLVING A HIGH DEGREE OF RISK. The Note Purchaser is aware that the Company is a start up enterprise with a limited operating history in a highly competitive market. The Note Purchaser recognizes that the Company's operations are continuing to incur losses and negative cash flow, that the Company will need significant additional capital to be successful, which capital may not be readily available, and that there can be no assurance that the Company's products or services will be accepted in the marketplace or that the Company will be able to obtain its projected sales or profits goals.

3.11 Restricted Securities

The Note Purchaser understands that (a) the Securities are characterized as "restricted securities" under the federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act of 1933, as amended (the "Act"), only in certain limited circumstances, and (b) there is presently no public market for the Securities and the Note Purchaser would most likely not be able to liquidate its investment in the event of an emergency or to pledge the Securities as collateral security for loans. The Note Purchaser's financial condition is such that it is unlikely that the Note Purchaser would need to dispose of any of the Securities in the foreseeable future. In this connection, the Note Purchaser represents that it is familiar with Rule 144 of the Securities and Exchange Commission (the "SEC"),

as presently in effect, and understands the resale limitations imposed thereby and by the Act.

3.12 Further Limitations on Disposition.

Without in any way limiting the representations set forth above, the Note Purchaser further agrees not to make any disposition of all or any portion of the Note or Warrant without the consent of the Company, which shall not be unreasonably withheld.

3.13 Residency

For purposes of the application of state securities laws, the Note Purchaser represents that it is a bona fide resident of, and/or is domiciled in, the State of Oregon.

3.14 Legends

It is understood that the Securities may bear one or more legends, including a legend similar to the following:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR APPLICABLE STATE SECURITIES LAWS, AND NO INTEREST MAY BE SOLD, DISTRIBUTED, ASSIGNED, OFFERED, PLEDGED OR OTHERWISE TRANSFERRED UNLESS (A) THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS COVERING ANY SUCH TRANSACTION INVOLVING SAID SECURITIES, (B) THE COMPANY RECEIVES AN OPINION OF LEGAL COUNSEL FOR THE HOLDER OF THESE SECURITIES SATISFACTORY TO THE COMPANY STATING THAT SUCH TRANSACTION IS EXEMPT FROM REGISTRATION, OR (C) THE COMPANY OTHERWISE SATISFIES ITSELF THAT SUCH TRANSACTION IS EXEMPT FROM REGISTRATION.

4. Miscellaneous.

4.1 Successors and Assigns.

Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

4.2 Governing Law.

This Agreement shall be governed by and construed under the laws of the State of Oregon as applied to agreements among Oregon residents, made and to be performed entirely within the State of Oregon.

4.3 Counterparts.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

4.4 Titles and Subtitles.

The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

4.5 Notices.

Unless otherwise provided, any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon personal delivery to the party to be notified and addressed to such party at the address set forth below, or at such other address as such party may designate by ten (10) days' advance written notice to the other parties.

If to the Company ...
With a copy to ...
If to Note Purchaser:

4.6 Finder's Fee.

Each party represents that it neither is nor will be obligated for any finder's fee or commission in connection with this transaction. The Note Purchaser agrees to indemnify and to hold harmless the Company from any liability for any commission or compensation in the nature of a finder's fee (and the costs and expenses of defending against such liability or asserted liability) for which the Note Purchaser is responsible.

The Company agrees to indemnify and hold harmless the Note Purchaser from any liability for any

commission or compensation in the nature of a finder's fee (and the costs and expenses of defending against such liability or asserted liability) for which the Company or any of its officers, employees, or representatives is responsible.

4.7 Expenses.

If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

4.8 Entire Agreement:

Amendments and Waivers. This Agreement and the other documents delivered pursuant hereto constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), with the written consent of the Company and the Note Purchaser. Any waiver or amendment effected in accordance with this Section shall be binding upon each holder of any securities purchased under this Agreement at the time outstanding (including securities into which such securities have been converted), each future holder of all such securities, and the Company

4.9 Severability.

If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written

EXHIBIT A TO NOTE AND WARRANT PURCHASE AGREEMENT

THE SECURITIES EVIDENCED BY THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR APPLICABLE STATE SECURITIES LAWS, AND NO INTEREST MAY BE SOLD, DISTRIBUTED, ASSIGNED, OFFERED, PLEDGED OR OTHERWISE TRANSFERRED UNLESS (A) THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS COVERING ANY SUCH TRANSACTION INVOLVING SAID SECURITIES, (B) THE COMPANY RECEIVES AN OPINION OF LEGAL COUNSEL FOR THE HOLDER OF THESE SECURITIES SATISFACTORY TO THE COMPANY STATING THAT SUCH TRANSACTION IS EXEMPT FROM REGISTRATION, OR (C) THE COMPANY OTHERWISE SATISFIES ITSELF THAT SUCH TRANSACTION IS EXEMPT FROM REGISTRATION.

Number: A-1 <month> __, 200_
\$ _____ Portland, Oregon

<Your Company's Name> CONVERTIBLE PROMISSORY NOTE

This convertible promissory note (this "Note") is issued pursuant to the terms of that certain Note and Warrant Purchase Agreement (the "Purchase Agreement") dated as of <month> __, 200_. <Your Company>, an Oregon corporation (the "Company"), for value received, promises to pay to _____ (the "Holder"), or the Holder's registered assigns, the principal sum of \$ _____ (the "Principal Amount")

The following is a statement of the rights of the Holder and the conditions to which this Note is subject, to which the Holder, by the acceptance of this Note, agrees:

1. Principal and Interest; Prepayment

(a) Principal and Interest. Interest shall accrue on the unpaid Principal Amount at a rate of 8% per annum, simple interest ("Interest"). The outstanding Principal Amount and any accrued and unpaid Interest shall become due and payable on <month> __, 200_, unless this Note shall be earlier converted pursuant to the terms of Section 2.

(b) Prepayment. The Company may at any time prepay in whole or in part the outstanding Principal Amount, plus accrued and unpaid Interest.

2. Conversion 2.1 Conversion

This Note has been issued by the Company in anticipation of the closing, or the series of closings, of the sale of shares of the Company's Series A Preferred Stock (the "Series A Stock") yielding aggregate gross proceeds to the Company of at least \$500,000 (the "Closing"), which aggregate gross proceeds shall include the principal amount of this Note and any other notes convertible into Series A Stock upon the Closing which may be issued by the Company. Subject to Section 4, upon the occurrence of the Closing, and the amendment of the Company's Articles of Incorporation to authorize and create the Series A Stock, this Note shall automatically be converted, in whole, into fully paid and nonassessable shares of the Series A Stock (the "Conversion Stock"). The date of such automatic conversion is referred to herein as the "Conversion Date." Upon the Closing the outstanding Principal Amount shall be automatically converted into fully paid and nonassessable shares of Series A Stock at the price per share paid by the investors at the Closing (the "Conversion Price"). Upon the Closing the Company shall pay the accrued and unpaid Interest in Series A Stock at the Conversion Price or pay the accrued and unpaid Interest in cash.

2.2 Terms of Conversion Stock

The Conversion Stock to be issued pursuant to Section 2.1, if any, shall have such terms, rights, preferences and privileges as shall be negotiated by the Company and the investor who invests a minimum of \$250,000 in such Conversion Stock or notes convertible into

such Conversion Stock upon Closing.

3. Issuance of the Stock Upon Conversion; Fractional Shares

As soon as practicable after the Conversion Date, the Company, at its expense, will cause to be issued in the name of and delivered to the Holder, a certificate or certificates for the number of fully paid and nonassessable shares of Conversion Stock to which the Holder shall be entitled upon such conversion, which certificates shall include legends restricting transfer under the federal and state securities laws. No fractional shares will be issued upon conversion of this Note. If, upon conversion of this Note, a fraction of a share results, the Company will pay the cash value of that fractional share, calculated on the basis of the Conversion Price.

4. Investors' Rights Agreement; Shareholders Agreement

By accepting this Note, the Holder agrees that, in the event that this Note is converted into shares of Conversion Stock, the Holder shall enter into and become subject to the terms and conditions of the agreements to which the other investors in the Series A Stock are parties, if any, including, without limitation, an Investors' Rights Agreement and a Shareholders Agreement, which may restrict the transferability of the Series A Stock then held by the Holder.

5. Holder's Representations

The Holder represents and warrants that:

- (a) it is familiar with the Company, the nature of its business and its financial prospects, and the Holder has the capacity to protect its own interests, and
- (b) it is acquiring the Note and the securities that may be purchased upon conversion for investment for its own account, not as a nominee or agent, and not with a view to, or for resale in connection with, any distribution. It understands that the Note and the securities that may be purchased upon conversion have not been, and will not be, registered under the Securities Act of 1933, as amended, by reason of a specific exemption from the registration provisions of such Act, the availability of which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Holder's representations.
- (c) it is a resident of the State of _____.

6. Transfer of Note; Restrictions on Transfer

This Note may be transferred only in compliance with applicable federal and state securities laws, only in compliance with the terms of the Purchase Agreement, and only upon surrender of the original Note for registration of transfer, duly endorsed, or accompanied by a duly executed written instrument of transfer in form satisfactory to the Company, upon receipt of which a new Note for like principal amount will be issued to, and registered in the name of, the transferee. Interest and principal are payable only to the registered holder of the Note. The Holder agrees to provide a Form W-9 to the Company upon request. This Note may not be transferred or assigned without the consent of the Company, except to a partner or shareholder of the Holder.

7. Miscellaneous

7.1 Holder as Owner

The Company may deem and treat the holder of record of this Note as the absolute owner for all purposes regardless of any notice to the contrary.

7.2 No Shareholder Rights

This Note shall not entitle the Holder to any voting rights or any other rights as a shareholder of the Company or to any other rights except the rights stated herein; and no dividend shall be payable or shall accrue in respect of this Note or the Conversion Stock, until this Note is converted.

7.3 Notices

Unless otherwise provided, any notice under this Note shall be given in writing and shall be deemed effectively given (a) upon personal delivery to the party to be notified, (b) upon confirmation of receipt by fax by the party to be notified, (c) one business day after deposit with a reputable overnight courier, prepaid for overnight delivery and addressed as set forth in (d), or (d) three days after deposit with the United States Post Office, postage prepaid, registered or certified with return receipt requested and addressed to the party to be notified at the address indicated below, or at such other address as such party may designate by ten days' advance written notice to the other party given in the foregoing manner.

If to the Holder:

Phone: _____

If to the Company:

<Your Company>
<company address>
Attention: <contact name>
telephone: <company phone>
fax: <company fax>

With a copy to:

<your law firm>
<law firm address>
Attention: <law firm contact name>

7.4 Amendments and Waivers

Any term of this Note may be amended and the observance of any term may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company and the Holder. Any amendment or waiver shall be binding on each future Holder and the Company.

7.5 Governing Law; Jurisdiction; Venue

This Note shall be governed by and construed under the laws of the State of Oregon as applied to agreements among Oregon residents, made and to be performed entirely within the State of Oregon.

7.6 Successors and Assigns

The terms and conditions of this Note shall inure to the benefit of and be binding on the respective successors and assigns of the parties.

7.7 Severability

If one or more provisions of this Note are held to be unenforceable under applicable law, such provision shall be excluded from this Note, and the balance of this Note shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

<your company name>

By:

Name: <your name>

Its: <your title>

- X = the number of shares of Warrant Stock issuable upon net issuance exercise pursuant to the provisions of this Section 1.2.
- A = the Fair Market Value (as defined below) of one share of Warrant Stock on the date of net issuance exercise.
- B = the Exercise Price for one share of Warrant Stock under this Warrant.
- C = the number of shares of Warrant Stock as to which this Warrant is exercisable pursuant to the provisions of Section 1.1.

If the foregoing calculation results in a negative number, then no shares of Warrant Stock shall be issued upon net issuance exercise pursuant to this Section 1.2.

"Fair Market Value" of a share of Warrant Stock shall mean:

- (a) if the net issuance exercise is in connection with a transaction specified in Section 4.1(a), the value of the consideration (determined, in the case of noncash consideration, in good faith by the Company's Board of Directors) to be received pursuant to such transaction by the holder of one share of Warrant Stock;
- (b) if the net issuance exercise is in connection with the initial public offering of the Company's Common Stock (the "Common Stock"), the initial public offering price per share (before deducting commission, discounts or expenses) at which the Common Stock is sold in such offering multiplied by the number of shares of Common Stock into which one share of Warrant Stock could be converted on the date of net issuance exercise, if such Warrant Stock is then convertible into Common Stock; and
- (c) In all other cases, the fair value as determined in good faith by the Company's Board of Directors.

2. Delivery of Stock Certificates; No Fractional Shares

2.1 Certificates

Within ten days after the payment of the Purchase Price following the exercise of this Warrant (in whole or in part) or after notice of net issuance exercise and compliance with Section 1.2, the Company at its expense shall issue in the name of and deliver to the Holder (a) a certificate or certificates for the number of fully paid and nonassessable shares of Warrant Stock to which the Holder shall be entitled upon such exercise, and (b) a new Warrant of like tenor to purchase up to that number of shares of Warrant Stock, if any, as to which this Warrant has not been exercised if this Warrant has not expired. The Holder shall for all purposes be deemed to have become the holder of record of such shares of Warrant Stock on the date this Warrant was exercised (the date the Holder has fully complied with the requirements of Section 1.1 or 1.2), irrespective of the date of delivery of the certificate or certificates representing the Warrant Stock; provided that, if the date such exercise is made is a date when the stock transfer books of the Company are closed, such person shall be deemed to have become the holder of record of such shares of Warrant Stock at the close of business on the next succeeding date on which the stock transfer books are open.

2.2 No Fractional Shares

No fractional shares shall be issued upon the exercise of this Warrant. In lieu of fractional shares, the Company shall pay the Holder a sum in cash equal to the fair market value of the fractional shares (as determined by the Company's Board of Directors) on the date of exercise.

3. Covenants as to Warrant Stock

The Company covenants that at all times during the Exercise Period there shall be reserved for issuance and delivery upon exercise of this Warrant such number of shares of Warrant Stock as is necessary for exercise in full of this Warrant and, from time to time, it will take all steps necessary to amend its Articles of Incorporation to provide sufficient reserves of shares of Warrant Stock. The Company covenants that during the period this Warrant and the Warrant Stock are outstanding, there shall be reserved for issuance and delivery upon conversion of the Warrant Stock such number of shares of Common Stock as is necessary for conversion in full of the Warrant Stock and, from time to time, it will take all steps necessary to amend its Articles of Incorporation to provide sufficient reserves of shares of Common Stock. All shares of Warrant Stock issued pursuant to the exercise of this Warrant and all shares of Common Stock issuable upon conversion of the Warrant Stock will, upon their issuance, be validly issued and outstanding, fully paid and nonassessable, free and clear of all liens and other encumbrances or restrictions on sale and free and clear of all preemptive rights, except restrictions arising (a) under federal and state securities laws, (b) not by or through the Company, or (c) by agreement between the Company and the Holder or its successors.

4. Adjustments; Termination of Warrant Upon Certain Events

4.1 Effect of Reorganization

(a) Reorganization--No Change in Control

Upon a merger, consolidation, acquisition of all or substantially all of the property or stock, liquidation or other reorganization of the Company (collectively, a "Reorganization") during the Exercise Period, as a result of which the shareholders of the Company receive cash, stock or other property in exchange for their shares of Warrant Stock and the holders of the Company's voting equity securities immediately prior to such Reorganization together own a majority interest of the voting equity securities of the successor corporation following such Reorganization, lawful provision shall be made so that the Holder shall thereafter be entitled to receive, upon exercise of this Warrant, the number of shares of securities of the successor corporation resulting from such Reorganization (and cash and other property), to which a holder of the Warrant Stock issuable upon exercise of this Warrant would have been entitled in such Reorganization if this Warrant had been exercised immediately prior to such Reorganization. In any such case, appropriate adjustment (as determined in good faith by the Company's Board of Directors) shall be made in the application of the provisions of this Warrant with respect to the rights and interest of the Holder after the Reorganization to the end that the provisions of this Warrant (including adjustments of the Exercise Price and the number and type of securities purchasable pursuant to the terms of this Warrant) shall be applicable after that event, as near as reasonably may be, in relation to any shares deliverable after that event upon the exercise of this Warrant.

(b) Reorganization--Change in Control; Termination of Warrant

Upon Reorganization during the Exercise Period, as a result of which the shareholders of the Company receive cash, stock or other property in exchange for their shares of Warrant Stock and the holders of the Company's voting equity securities immediately prior to such Reorganization together own less than a majority interest of the voting equity securities of the successor corporation following such Reorganization, the Holder shall be given notice of such proposed action as provided in Section 8. The Holder may attend the meeting of the Company's shareholders at which such action is considered and voted upon. If the proposed action is approved according to applicable law by the shareholders of all corporations or other entities that are parties to the proposed action, the Holder shall be so notified in writing by the Company by registered or certified mail at least ten business days before its effectiveness. Notwithstanding the period of exercisability stated on the face of this Warrant, this Warrant shall become forever null and void to the extent not exercised on or before 5:00 p.m., Pacific time, on the tenth business day following the delivery of such notice.

4.2 Adjustments for Stock Splits, Dividends

If the Company shall issue any shares of the same class as the Warrant Stock as a stock dividend or subdivide the number of outstanding shares of such class into a greater number of shares, then, in either such case, the Exercise Price in effect before such dividend or subdivision shall be proportionately reduced and the number of shares of Warrant Stock at that time issuable pursuant to the exercise of this Warrant shall be proportionately increased; and, conversely, if the Company shall contract the number of outstanding shares of the same class as the Warrant Stock by combining such shares into a smaller number of shares, then the Exercise Price in effect before such combination shall be proportionately increased and the number of shares of Warrant Stock at that time issuable pursuant to the exercise or conversion of this Warrant shall be proportionately decreased. Each adjustment in the number of shares of Warrant Stock issuable shall be to the nearest whole share.

4.3 Termination of Warrant Upon IPO

In connection with an initial public offering of the Company's Common Stock, the Holder shall be notified in writing by the Company at least 20 business days before the proposed closing date of such offering. Notwithstanding the Exercise Period, this Warrant shall terminate to the extent the Holder does not irrevocably agree on or before the close of business on the tenth business day following such notice to exercise this Warrant; provided that if the offering does not close, this Warrant shall not terminate and the Exercise Period shall continue as stated in this Warrant.

5. Securities Laws Restrictions; Legend on Warrant Stock

5.1 Restricted Securities

This Warrant and the securities issuable upon exercise have not been registered under the Securities Act of 1933, as amended (the "Act"), or applicable state securities laws, and no interest may be sold, distributed, assigned, offered, pledged or otherwise transferred unless (a) there is an effective

registration statement under the Act and applicable state securities laws covering any such transaction involving said securities, (b) the Company receives an opinion of legal counsel for the holder of the securities satisfactory to the Company stating that such transaction is exempt from registration, or (c) the Company otherwise satisfies itself that such transaction is exempt from registration.

5.2 Legends

A legend setting forth or referring to the above restrictions shall be placed on this Warrant, any replacement and any certificate representing the Warrant Stock, and a stop transfer order shall be placed on the books of the Company and with any transfer agent until such securities may be legally sold or otherwise transferred.

6. Investors' Rights Agreement; Shareholders Agreement

By accepting this Warrant, the Holder agrees that, in the event that this Warrant is exercised for shares of Warrant Stock, the Holder shall enter into and become subject to the terms and conditions of the agreements to which the other investors in the Series A Stock are parties, if any, including, without limitation, an Investors' Rights Agreement and a Shareholders Agreement, which may restrict the transferability of the Series A Stock then held by the Holder.

7. Exchange of Warrant; Lost or Damaged Warrant Certificate

This Warrant is exchangeable upon its surrender by the Holder at the office of the Company. Upon receipt by the Company of satisfactory evidence of the loss, theft, destruction or damage of this Warrant and either (in the case of loss, theft or destruction) reasonable indemnification or (in the case of damage) the surrender of this Warrant for cancellation, the Company will execute and deliver to the Holder, without charge, a new Warrant of like denomination.

8. Notices of Record Date, etc.

In the event of

- (a) any taking by the Company of a record of the holders of Warrant Stock for the purpose of determining the holders who are entitled to receive any dividend or other distribution, or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right;
- (b) any reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company, or any transfer of all or substantially all the assets of the Company to, or consolidation or merger of, the Company with or into any person;
- (c) any voluntary or involuntary dissolution, liquidation or winding-up of the Company;
- (d) any proposed issue or grant by the Company to the holders of Warrant Stock of any shares of stock of any class or any other securities, or any right or warrant to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities;
- (e) the initial public offering of the Company's Common Stock; or
- (f) any other event as to which the Company is required to give notice to any holders of Warrant Stock, then and in each such event the Company will mail to the Holder a notice specifying (i) the date on which any such record is to be taken, (ii) the date on which any such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as to which the holders of record of Warrant Stock or securities into which the Warrant Stock is convertible shall be entitled to exchange their shares for securities or other property deliverable on such reorganization, reclassification, recapitalization, transfer, consolidation, merger, dissolution, liquidation or winding-up, (iii) the amount and character of any stock or other securities, or rights or warrants, proposed to be issued or granted, the date of such proposed issue or grant and the persons or class of persons to whom such proposed issue or grant is to be offered or made, and (iv) in reasonable detail, the facts, including the proposed date, concerning any other such event. Such notice shall be delivered to the Holder at least 20 business days prior to the date specified in the notice.

9. Investment Intent

By accepting this Warrant, the Holder represents that it is acquiring this Warrant and any stock to be issued pursuant to the Warrant for investment and not with a view to, or for sale in connection with, any distribution thereof.

10. Miscellaneous

10.1 Holder as Owner

The Company may deem and treat the holder of record of this Warrant as the absolute owner for all purposes regardless of any notice to the contrary.

10.2 No Shareholder Rights

This Warrant shall not entitle the Holder to any voting rights or any other rights as a shareholder of the Company or to any other rights except the rights stated herein; and no dividend or interest shall be payable or shall accrue in respect of this Warrant or the Warrant Stock, until this Warrant is exercised.

10.3 Notices

Unless otherwise provided, any notice under this Warrant shall be given in writing and shall be deemed effectively given (a) upon personal delivery to the party to be notified, (b) upon confirmation of receipt by fax by the party to be notified, (c) one business day after deposit with a reputable overnight courier, prepaid for overnight delivery and addressed as set forth in (d), or (d) three days after deposit with the United States Post Office, postage prepaid, registered or certified with return receipt requested and addressed to the party to be notified at the address indicated below, or at such other address as such party may designate by ten days' advance written notice to the other party given in the foregoing manner.

If to the holder ...

If to the Company ...

10.4 Amendments and Waivers

Any term of this Warrant may be amended and the observance of any term may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company and the Holder. Any amendment or waiver effected in accordance with this Section 10.4 shall be binding on each future Holder and the Company.

10.5 Governing Law; Jurisdiction; Venue

This Warrant shall be governed by and construed under the laws of the State of Oregon as applied to agreements among Oregon residents, made and to be performed entirely within the State of Oregon.

10.6 Successors and Assigns; Transfer

The terms and conditions of this Warrant shall inure to the benefit of and be binding on the respective successors and assigns of the parties. This Warrant may not be transferred or assigned without the consent of the Company.

IN WITNESS WHEREOF, the Company has executed this Warrant as of the date first written above.

<your company name>

By:
Name:
Title:

NOTICE OF CASH EXERCISE

To : <your company name>

The undersigned hereby irrevocably elects to purchase _____ shares of Series A Preferred Stock of <your company name> (the "Company") issuable upon the exercise of the attached Warrant and requests that certificates for such shares be issued in the name of and delivered to the address of the undersigned, at the address stated below and, if said number of shares shall not be all the shares that may be purchased pursuant to the attached Warrant, that a new Warrant evidencing the right to purchase the balance of such shares be registered in the name of, and delivered to, the undersigned at the address stated below. The undersigned agrees with and represents to the Company that said shares of the Series A Preferred Stock of the Company are acquired for the account of the undersigned for investment and not with a view to, or for sale in connection with, any distribution or public offering within the meaning of the Securities Act of 1933, as amended.

[Payment enclosed in the amount of \$_____.]

[Company Debt canceled in the amount of \$_____.]

Dated: _____

Name of Holder of Warrant:

(please print)

Address:

Signature:

NOTICE OF NET ISSUANCE EXERCISE

To: <your company name>

The undersigned hereby irrevocably elects to convert the attached Warrant into such number of shares of Series A Preferred Stock of <your company name> (the "Company") as is determined pursuant to Section 1.2 of the attached Warrant. The undersigned requests that certificates for such net issuance shares be issued in the name of and delivered to the address of the undersigned, at the address stated below. The undersigned agrees with and represents to the Company that said shares of Series A Preferred Stock of the Company are acquired for the account of the undersigned for investment and not with a view to, or for sale in connection with, any distribution or public offering within the meaning of the Securities Act of 1933, as amended.

Dated: _____

Name of Holder of Warrant: _____
(please print)

Address: _____

Signature: _____