

The securities represented by this Note have not been registered under the Securities Act of 1933, as amended (the “Act”), or applicable state securities laws. These securities have been acquired for investment and not with a view to distribution or resale. These securities may not be offered for sale, sold, delivered after sale, transferred, pledged or hypothecated in the absence of an effective registration statement covering these securities under the Act and applicable state securities laws, or the availability of an exemption therefrom, as evidenced by an opinion of counsel satisfactory to the Issuer.

SUBORDINATED PROMISSORY NOTE

Amount: U.S. \$____,000.00

MONTH ____, 201__
Ann Arbor, Michigan

FOR VALUE RECEIVED, [COMPANY] a [CORPORATION], whose address is ____, ____, MI ____ (the “**Company**”), promises to pay to the order of Ann Arbor SPARK, a Michigan nonprofit corporation, whose address is 201 S. Division Street, Suite 430, Ann Arbor, MI 48104 (“**SPARK**”; together with any subsequent holder of this Note, the “**Holder**”), the principal sum of ____ Thousand Dollars (U.S. \$XX,000.00), together with interest thereon at a per annum rate of 12%, calculated on the basis of a 360-day year consisting of twelve thirty-day months.

1. Payment.

(i) Except as set forth in the payment schedule contained in subsection (ii) below, the Company shall pay the Holder the principal of, and accrued interest on, this Note upon demand at any time as of the first to occur of any of the following events (each a “**Payoff Event**”): (a) the date two (2) year(s) after the date hereof (the “**Maturity Date**”), (b) the Company sells all or substantially all of its assets, merges with or into any other entity or has more than 50% of its outstanding common stock owned by persons or entities who are not stockholders of the Company (or Affiliates (as hereinafter defined) of stockholders of the Company) as of the date hereof (a “**Change in Control**”), (c) the first closing by the Company of the sale of any form of equity securities issued after the date hereof and resulting in gross proceeds of new money of not less than \$1 million (the “**Subsequent Financing**”), or (d) the date upon which additional investment in the Company (whether in the form of debt, equity, or otherwise) is first approved by the Michigan Pre-Seed Capital Fund. The Company shall pay this Note in lawful money of the United States at the address of the Holder or at such other address of which the Holder shall have notified the Company in writing. The Company may prepay all or any portion of this Note at any time, with any such prepayment applied first to accrued but unpaid interest and then to principal with no penalty or charge for prepayment of any kind.

For purposes of this Note, the term “**Affiliate**” shall mean (a) for purposes of any Holder that is an individual, (i) the ancestors, descendants, spouse or private, tax-exempt foundation of such Holder, (ii) a trust, partnership, limited liability company, custodianship or other fiduciary account for the benefit of such Holder and/or such private foundation, ancestors, descendants or spouse, (b) for purposes of any Holder that is not an individual, (i) any person controlled by, or

under the control of, the Holder, or (ii) any member, stockholder, partner or other equity holder of such Holder that is an “accredited investor”, as that term is defined in Rule 501 of Regulation D, as promulgated under the Securities Act of 1933, as amended (the “*Securities Act*”).

(ii) Notwithstanding anything contained in the above subsection (i) to the contrary, on the date one (1) year after the date hereof, the Company shall pay to the Holder in cash or other immediately available funds, an amount equal to the accrued interest on this Note as of the date thereof. Every three (3) months thereafter, on the day sharing the same number as the date of the payment set forth in the preceding sentence (or the business day next following such date should the original date fall on a weekend or federally recognized bank holiday), the Company shall likewise pay to the Holder in cash or other immediately available funds, an amount equal to the accrued but unpaid interest on this Note as of the date thereof. The payments described in this subsection shall serve as payment of the accrued interest associated therewith, and the payment obligation of the Company hereunder or upon demand of the Holder of payment after a Payoff Event shall be likewise reduced.

2. Subordination.

(i) To the extent hereinafter provided, this Note is expressly subordinated in the manner set forth in this Section to all Company Indebtedness (as hereinafter defined), unless the instrument creating or evidencing Company Indebtedness provides that such Company Indebtedness is *pari passu* or subordinated in right of payment to this Note. For purposes hereof, “*Company Indebtedness*” shall be defined as the principal of (and premium, if any) and interest on and fees and other amounts payable with respect to all debt or obligations of the Company for borrowed money. The Holder, for itself and its successors and assigns, expressly for the benefit of the present and future holders of Company Indebtedness, by accepting this Note, agrees to and shall be bound by the subordination provisions of this Section.

(ii) Notwithstanding Section 5 of this Note, so long as any Company Indebtedness is outstanding, the Holder shall have no right to accelerate this Note or take any other action under such Section 5 until one-hundred and eighty (180) days after the Holder shall have given the Company notice of the occurrence of a Default. No payment on account of the principal of or interest on this Note shall be made, and the Holder shall not be entitled to receive any such payment, if, at the time of such payment or application or immediately after giving effect thereto there shall exist under any Company Indebtedness or any agreement pursuant to which any such Company Indebtedness is issued any default or any condition, event or act, which with notice or lapse of time, or both, would constitute a default, unless and until such default or event of default shall have been cured or waived or cease to exist.

(iii) In the event of any insolvency or bankruptcy proceedings, and any receivership, liquidation, reorganization or other similar proceedings in connection therewith, relative to the Company or to its creditors, as such, or to its property, or in the event of any proceedings for voluntary liquidation, dissolution, or other winding up of the Company, whether or not involving insolvency or bankruptcy, the holders of Company Indebtedness shall be entitled to receive payment in full of all principal, premium, if any, and interest on all Company Indebtedness (*pro rata* to such holders on the basis of the respective amounts of Company Indebtedness held by such holders) before the Holder is entitled to receive any payment on account of principal or interest upon this Note and to receive for application in payment thereof any payment or

distribution of any kind or character, whether in cash, property or securities (other than shares of stock of the Company as reorganized or readjusted or securities of the Company or any other corporation or other entity provided for by a plan of reorganization or readjustment, the payment of which is subordinated to the payment of all Company Indebtedness which may at the time be outstanding) which may be payable or deliverable in any such proceedings in respect of this Note.

(iv) If, notwithstanding the foregoing, any payment or distribution of assets of the Company, whether in cash, property or securities (other than shares of stock of the Company as reorganized or readjusted or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment, the payment of which is subordinated to the payment of all Company Indebtedness which may at the time be outstanding) shall be received by the Holder contrary to the provisions of this Section, or provision made for its payment in cash, such payment or distribution shall be held in trust for the benefit of, and shall (upon acceleration of the Company Indebtedness) be paid over or delivered to, the holders of such Company Indebtedness or their representative or representatives, or to the trustee or trustees under any indenture under which any instruments evidencing any of such Company Indebtedness may have been issued, for application to the payment of all Company Indebtedness remaining unpaid to the extent necessary to pay all such Company Indebtedness after giving effect to any concurrent payment or distribution, or provision for payment thereof in cash, to the holders of such Company Indebtedness.

(v) No right of any present or future holder of any Company Indebtedness to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by the noncompliance by the Company with the terms, provisions and covenants of this Note regardless of any knowledge thereof which any such holder may have or otherwise be charged with. Nothing contained in this Section or elsewhere in this Note is intended to or shall impair, as between the Company, its creditors other than the holders of Company Indebtedness, and the Holder, the obligation of the Company, which is absolute and unconditional, to pay to the Holder the principal of and the interest on this Note in accordance with its terms, or is intended to or shall affect the relative rights of the Holder and the creditors of the Company other than the holders of Company Indebtedness, nor shall anything herein or therein prevent the Holder from exercising all remedies otherwise permitted by applicable law upon default under this Note, subject to the rights, if any, under this Note of the Company Indebtedness in respect of cash, property or securities of the Company received upon the exercise of any such remedy.

(vi) Upon the payment in full of all Company Indebtedness to the extent such payment in full resulted from the subordination provisions of this Note, the rights of the Holder shall be subrogated to the rights of the holders of Company Indebtedness to receive payments or distributions of cash, property or securities of the Company applicable to the Company Indebtedness until the principal of and interest on this Note shall be paid in full; and, for the purposes of such subrogation, no payments or distributions to the holders of the Company Indebtedness of any cash, property or securities to which the Holder would be entitled except for the provisions of this Section, and no payment pursuant to the provisions of this Section to or for the benefit of the holders of Company Indebtedness by the Holder shall, as between the Company, its creditors other than holders of Company Indebtedness, and the Holder, be deemed to be a payment by the Company to or on account of the Company Indebtedness. The provisions

of this Section are solely for the purpose of defining the relative rights of the Holder on the one hand, and the holders of the Company Indebtedness, on the other.

(vii) Notwithstanding anything contained in this Section to the contrary, the Holder shall be permitted to receive payment of the outstanding principal amount and interest under this Note upon Holder's demand in accordance with Section 1 hereof after any Payoff Event, provided that there is not at the time of such demand, under any Company Indebtedness or any agreement pursuant to which any such Company Indebtedness is issued, any default or any condition, event or act, which with notice or lapse of time, or both, would constitute a default, unless and until such default or event of default shall have been cured or waived or cease to exist.

3. Investment; Transfer. By acceptance of this Note, Ann Arbor SPARK warrants and represents to the Company that SPARK (i) has such knowledge and experience in financial and business matters that SPARK is capable of independently evaluating the risks and merits of purchasing this Note, (ii) has independently evaluated the risks and merits of purchasing the Note and has independently determined that the Note is a suitable investment for Ann Arbor SPARK, (iii) has sufficient financial resources to bear the loss of Ann Arbor SPARK's entire investment in the Note, and (iv) is acquiring the Note solely for Ann Arbor SPARK's own account for investment only and not with a view to distribution or resale of the Note. This Note is transferable only upon the books that the Company shall cause to be maintained for such purpose. Any assignment or transfer may be made by surrendering this Note to the Company together with an assignment properly executed by the assignor or transferor. Upon such surrender the Company will execute and deliver, in the case of an assignment or transfer in whole, a new Note in the name of the assignee or transferee or, in the case of an assignment or transfer in part, a new Note in the name of the assignee or transferee named in such instrument of assignment or transfer and a new Note in the name of the assignor or transferor covering the portion of this Note not assigned or transferred to the assignee or transferee. The Holder may not assign or transfer this Note to any person or entity other than an Affiliate without the consent of the Company, which consent shall not be unreasonably withheld, conditioned or delayed.

4. No Misrepresentation. The Company represents and warrants to Ann Arbor SPARK that neither this Note nor any written statements or certificates or other documents provided by the Company to SPARK in connection with the making of the loan evidenced by this Note contain any untrue statement of a material fact, or omit to state a fact necessary to make the statements contained therein or herein misleading.

5. Default.

(i) Any of the following events shall, for purposes of this Note, constitute an "**Event of Default**": (a) failure of the Company to pay the principal of, and interest on, this Note when due, (b) violation by the Company of any other covenant, agreement or condition contained in this Note in any material respect, which violation has not been cured to the satisfaction of the Holder within ten (10) business days after the Company's receipt of written notice of any such violation, (c) institution of bankruptcy, reorganization, insolvency, assignment for the benefit of creditors, or other similar proceedings by or against the Company; (d) dissolution or termination of existence of or by the Company; (e) if the Company ceases to have substantially all of its employees and operations (exclusive of sales offices), or its headquarters located within the State

of Michigan; (f) these loan proceeds are used to pay other debt; or (g) loan proceeds are used for expenses not related to the use of funds identified in the approved business plan.

(ii) Upon the occurrence of an Event of Default, an amount equal to the sum of (a) the entire outstanding principal amount of this Note, (b) the accrued but unpaid interest on this Note, and (c) an amount equal to five percent (5%) of the original principal amount of this Note (the sum total of such components, the “*Default Amount*”) shall be immediately due and payable by the Company. Further, the Default Amount in total shall accrue interest, and the Company shall be obligated to pay such interest as part of the Default Amount, on and after the occurrence of an Event of Default at the same rate as set forth in the initial paragraph of this Note.

6. Replacement of Note. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Note, and of indemnity in form and amount reasonably satisfactory to the Company, if lost, stolen or destroyed, and upon surrender and cancellation of this Note, if mutilated, and upon reimbursement of the Company’s reasonable incidental expenses, the Company shall execute and deliver to the Holder a new Note of like date, tenor and denomination.

7. Reporting. Until such time as this Note is paid in full, the Company shall provide to the Holder (i) copies of all reports provided to its stockholders at the time so provided, (ii) management prepared and certified quarterly financial statements within forty-five (45) days after the end of each calendar quarter and annual financial statements within ninety (90) days following the conclusion of the Company’s fiscal year, in each case including a balance sheet and income statement, and (iii), within thirty (30) days after the end of each calendar year a management certified report setting forth the number of the Company’s employees as of the end of each fiscal year, all grants and private equity raised, and new intellectual property created.

8. General Provisions.

(i) This Note shall be governed by and construed in accordance with the laws of the State of Michigan applicable to agreements made and to be performed therein, without giving effect to principals of conflicts of laws.

(ii) The Company waives presentment for payment, demand, notice of non-payment, notice of protest or protest of this Note, and Holder diligence in collection or bringing suit, and hereby consents to any and all extensions of time, renewals, waivers or modifications as may be granted by Holder with respect to payment or any other provisions of this Note.

(iii) Acceptance by Holder of any payment in an amount less than the amount then due shall be deemed an acceptance on account only, and the Company’s failure to pay the entire amount then due shall be and continue to be a default. Upon the occurrence of any Event of Default, neither the failure of Holder promptly to exercise its right to declare the outstanding principal and accrued but unpaid interest hereunder to be immediately due and payable, nor the failure of Holder to demand strict performance of any other obligation of the Company hereunder, shall constitute a waiver of any such rights, nor a waiver of such rights in connection with any future default on the part of the Company hereunder.

(iv) Wherever possible, each provision of this Note shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Note shall be prohibited by or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Note.

(v) The remedies provided herein to the Holder shall be cumulative.

The Company has duly executed this Note as of the date first set forth above.

[COMPANY]

By _____

Name: _____

Title: _____