

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933.

SUBORDINATED CONVERTIBLE PROMISSORY NOTE

\$ _____, 2012
Seattle, WA, United States

For value received, _____, a _____ corporation (the "**Company**"), promises to pay to SIFP SEATTLE FUND II, LLC, a Washington limited liability company (the "**Holder**"), the principal sum of _____ Dollars (\$ _____).

1. **Maturity.** Unless converted as provided in Section 2, principal and any accrued but unpaid interest under this Note shall be due and payable upon the written demand of the Holder at any time after the earlier to occur of (i) the second (2nd) annual anniversary of the issue date of this Note, (ii) a Change of Control (as defined below), or (iii) the Company's filing of a registration statement with the Securities and Exchange Commission (the "**Maturity Date**"). Interest on this Note will accrue at the rate of six percent (6%), compounding annually. Notwithstanding the foregoing, the entire unpaid principal sum of this Note, together with accrued and unpaid interest thereon, shall become immediately due and payable (i) upon the insolvency of the Company, (ii) the commission of any act of bankruptcy by the Company, (iii) the execution by the Company of a general assignment for the benefit of creditors, the filing by or against the Company of a petition in bankruptcy or any petition for relief under the federal bankruptcy act or the continuation of such petition without dismissal for a period of 90 days or more, (iv) the appointment of a receiver or trustee to take possession of the property or assets of the Company, or (v) the material breach of the Company by any representation or warranty or any covenant contained herein.

2. **Conversion.**

(a) **Investment by the Holder.**

(i) **Next Equity Financing.** The entire principal amount of and (at the Holder's option) accrued interest on this Note shall be converted into shares of the Company's equity securities (the "**Next Equity Securities**") issued and sold at the close of the Company's next equity financing in a single transaction or a series of related transactions yielding gross proceeds to the Company of at least \$500,000 in the aggregate (including the conversion of the Notes) (the "**Next Equity Financing**"). The number of shares of Next Equity Securities to be issued upon such conversion shall be equal to the quotient obtained by dividing (i) the entire principal amount of this Note plus (if applicable) accrued interest by (ii) the price per share at which securities are sold in the Next Equity Financing discounted at the rate specified in Appendix A (the "**Conversion Price**"), rounded to the nearest whole share, and the issuance of

such shares upon such conversion shall be upon the terms and subject to the conditions applicable to the Next Equity Financing; *provided, however*, that the Conversion Price shall not be greater than the quotient obtained by dividing (i) [\$2,000,000] (the “**Valuation Cap**”) by (ii) the number of shares of Common Stock of the Company outstanding immediately prior to the conversion of this Note (assuming conversion of all securities convertible into Common Stock, exercise of all outstanding options and warrants to purchase Common Stock, and including the shares reserved or authorized for issuance under the Company’s existing stock option plan or any stock option plan to be adopted in connection with the Next Equity Financing) (the “**Valuation Cap Share Price**”).

(ii) **No Next Equity Financing.** If the Next Equity Financing does not occur on or before the Maturity Date, or in the event the Company files a registration statement on a Form S-1 with the SEC before this Note is paid in full or converted, the Holder (i) may demand payment of the principal and unpaid interest under this Note pursuant to Section 1; or (ii) may convert the entire principal amount of and (at the Holder’s option) accrued interest on this Note into shares of the Company’s Common Stock as is obtained by dividing (i) the entire unpaid principal amount of this Note plus (if applicable) accrued interest by (ii) the lesser of (a) 25% of the Valuation Cap Share Price or (b) the price per share determined by dividing (x) the lowest price per share at which equity has been sold or issued to service providers (such as employees or consultants in the form of compensatory equity awards) during the twelve (12) month period before conversion (including the lowest price per share at which options or warrants were priced by (y) the total number of shares of Common Stock of the Company issued and outstanding immediately prior to the Change of Control (including outstanding stock and options and shares reserved for issuance under the Company’s stock plan), rounded to the nearest whole share.

(iii) **Change of Control.** If a Change of Control (as defined below) is consummated prior to (i) the date this Note is paid in full or (ii) the consummation of the Next Equity Financing, the entire principal amount of and, at the Holder’s option, accrued interest on this Note, shall automatically be converted into such number of shares of the Company’s Common Stock as is obtained by dividing (i) the entire unpaid principal amount of this Note plus (if applicable) accrued interest by (ii) the lesser of (a) the Valuation Cap Share Price or (b) the price per share determined by dividing (x) the valuation of the Company in such Change of Control transaction discounted at the rate specified in Appendix A by (y) the total number of shares of Common Stock of the Company issued and outstanding immediately prior to the Change of Control (including outstanding stock and options and shares reserved for issuance under the Company’s stock plan), rounded to the nearest whole share.

(iv) **Notice.** The Company will give the Holder at least twenty (20) days advance written notice of any contemplated Change of Control transaction or any plan to file a registration statement with the Securities and Exchange Commission.

(b) **Mechanics and Effect of Conversion.** No fractional shares of the Company’s capital stock will be issued upon conversion of this Note. In lieu of any fractional share to which the Holder would otherwise be entitled, the Company will pay to the Holder in cash the amount of the unconverted principal and interest balance of this Note that would otherwise be converted into such fractional share. Upon conversion of this Note pursuant to this

Section 2, the Holder shall surrender this Note, duly endorsed, at the principal offices of the Company or any transfer agent of the Company. At its expense, the Company will, as soon as practicable thereafter, issue and deliver to such Holder, at such principal office, a certificate or certificates for the number of shares to which such Holder is entitled upon such conversion, together with any other securities and property to which the Holder is entitled upon such conversion under the terms of this Note, including a check payable to the Holder for any cash amounts payable as described herein. Upon conversion of this Note, the Company will be forever released from all of its obligations and liabilities under this Note with regard to that portion of the principal amount and accrued interest being converted including without limitation the obligation to pay such portion of the principal amount and accrued interest. Upon conversion, the Holder will be entitled to a contractual right to maintain its pro rata share in subsequent equity offerings by the Company, in compliance with attached Appendix B.

(c) **Payment of Interest.** Upon conversion of the principal amount of this Note into the Company's equity securities, any interest accrued on this Note that is not by reason of Section 2(a) simultaneously converted into such equity securities shall be immediately paid to the Holder.

(d) **Definition.** The term "*Change of Control*" shall mean the sale, conveyance or other disposition of all or substantially all of the Company's property or business or the Company's merger with or into or consolidation with any other corporation, limited liability company or other entity (other than a wholly owned subsidiary of the Company), provided that the term "Change of Control" shall not include (i) a merger of the Company effected exclusively for the purpose of changing the domicile of the Company, (ii) an equity financing in which the Company is the surviving corporation, or (iii) a transaction in which the stockholders of the Company immediately prior to the transaction own 50% or more of the voting power of the surviving corporation following the transaction.

3. **Change in Entity Required for Conversion.** Notwithstanding anything to the contrary in this Note, the principal and accrued interest hereunder may not be converted into equity of the Company without the specific, additional written consent of the Holder if the Company is not an entity taxed under Subchapter C of the Internal Revenue Code of 1986, as amended, as a C corporation.

4. **Payment; Prepayment.** All payments shall be made in lawful money of the United States of America at such place as the Holder hereof may from time to time designate in writing to the Company. Payment shall be credited first to the accrued interest then due and payable and the remainder shall be applied to principal. This Note may not be prepaid, unless approved by the individual lender or holder of this note.

5. **No Dividends.** For so long as any amount under this Note is still outstanding, the Company will not pay any dividends or make any distribution with respect to shares or units.

6. **Transfer; Successors and Assigns.** The terms and conditions of this Note shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Notwithstanding the foregoing, the Holder may not assign, pledge, or otherwise transfer this

Note without the prior written consent of the Company, which will not be unreasonably withheld. Subject to the preceding sentence, this Note may be transferred 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. Thereupon, a new note for the same principal amount and interest will be issued to, and registered in the name of, the transferee. Interest and principal are payable only to the registered holder of this Note.

7. **Governing Law.** This Note and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Washington, without giving effect to principles of conflicts of law.

8. **Notices.** Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient upon delivery, when delivered personally or by overnight courier or sent by email or fax (upon customary confirmation of receipt), or forty-eight (48) hours after being deposited in the U.S. mail as certified or registered mail with postage prepaid, addressed to the party to be notified at such party's address or fax number as set forth on the signature page or as subsequently modified by written notice.

9. **Stockholders, Officers and Directors Not Liable.** In no event shall any stockholder, officer or director of the Company be liable for any amounts due or payable pursuant to this Note.

10. **Subordination.**

(a) The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all of the Company's Senior Indebtedness. "***Senior Indebtedness***" shall mean the principal of and unpaid interest and premium, if any, on (i) indebtedness of the Company or with respect to which the Company is a guarantor, whether outstanding on the date hereof or hereafter created, to banks, insurance companies or other lending or thrift institutions regularly engaged in the business of lending money, whether or not secured and (ii) any deferrals, renewals or extensions or any debentures, notes or other evidence of indebtedness issued in exchange for such Senior Indebtedness.

(b) Upon any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization, or arrangement which creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation, or any other marshaling of the assets and liabilities of the Company or in the event this Note shall be declared due and payable, (i) no amount shall be paid by the Company, whether in cash or property in respect of the principal of or interest on this Note at the time outstanding, unless and until the full amount of any Senior Indebtedness then outstanding shall be paid in full, and (ii) no claim or proof of claim shall be filed with the Company by or on behalf of the holder of this Note which shall assert any right to receive any payments in respect of the principal of and interest on this Note except subject to the payment in full all of the Senior Indebtedness then outstanding.

(c) If an event of default has occurred with respect to any Senior Indebtedness, permitting the holder thereof to accelerate the maturity thereof, then unless and until such event of default shall have been cured or waived or shall have ceased to exist, or all Senior Indebtedness shall have been paid in full, no payment shall be made in respect of the principal of or interest on this Note.

(d) Nothing contained in this the preceding paragraphs shall impair, as between the Company and the Holder, the obligation of the Company, which is absolute and unconditional, to pay to the Holder hereof the principal hereof and interest hereon as and when the same shall become due and payable, or shall prevent the Holder, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law, all subject to the rights, if any, of the holders of Senior Indebtedness under the preceding paragraphs to receive cash or other properties otherwise payable or deliverable to the Holder pursuant to this Note.

11. **Counterparts.** This Note may be executed in any number of counterparts, each of which will be deemed to be an original and all of which together will constitute a single agreement.

12. **Action to Collect on Note.** If action is instituted to collect on this Note, the Company promises to pay all costs and expenses, including reasonable attorney's fees, incurred in connection with such action.

13. **Loss of Note.** Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Note or any Note exchanged for it, and indemnity satisfactory to the Company (in case of loss, theft or destruction) or surrender and cancellation of such Note (in the case of mutilation), the Company will make and deliver in lieu of such Note a new Note of like tenor.

14. **Representations and Warranties of the Holder.** Holder hereby makes the representations and warranties set forth on attached Appendix C.

THIS PROMISSORY NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH WASHINGTON LAW.

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING PAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has executed this Subordinated Convertible Promissory Note as of the date first set forth above.

Company:

By: _____

Name: _____

Title: _____

Address: _____

Fax: _____

AGREED TO AND ACCEPTED:

Holder:

SIFP SEATTLE FUND II, LLC

By: _____

Name: _____

Title: _____

Address: _____

Fax: _____

APPENDIX A

DISCOUNT RATE FOR NOTE CONVERSION

Duration to Note Conversion	Discount Rate
Less than 3 months	25%
3 to 6 months	30%
6 months to 9 months	35%
9 months to 12 months	40%
12 months to 15 months	45%
15 months to 18 months	50%
18 months to 21 months	55%
21 months to 24 months	60%

APPENDIX B

PARTICIPATION RIGHT

1. General. SIFP has the right of first refusal to purchase such investor's Pro Rata Share (as defined below) of all (or any part) of any New Securities (as defined in Section 2 below) that the Company may from time to time issue after the date of this Agreement. SIFP's "Pro Rata Share" for purposes of this Participation Right is the ratio of (a) the number of shares of the Company's Common Stock issued or issuable upon conversion of the Shares owned by SIFP, to (b) a number of shares of Common Stock of the Company equal to the sum of (1) the total number of shares of Common Stock of the Company then outstanding plus (2) the total number of shares of Common Stock of the Company into which all then outstanding shares of Preferred Stock of the Company are then convertible plus (3) the number of shares of Common Stock of the Company reserved for issuance under any stock purchase and stock option plans of the Company and outstanding warrants.

2. New Securities. "New Securities" shall mean any Common Stock or Preferred Stock of the Company, whether now authorized or not, and rights, options or warrants to purchase such Common Stock or Preferred Stock, and securities of any type whatsoever that are, or may become, convertible or exchangeable into such Common Stock or Preferred Stock; provided, however, that the term "New Securities" does not include: (a) shares of Common Stock issued or issuable upon conversion of the outstanding shares of all the series of the Preferred Stock; (b) shares of Common Stock or Preferred Stock issuable upon exercise of any options, warrants or rights to purchase any securities of the Company outstanding as of the date of this Agreement and any securities issuable upon the conversion thereof; (c) shares of Common Stock or Preferred Stock issued in connection with any stock split or stock dividend or recapitalization; (d) shares of Common Stock (or options, warrants or rights therefor) granted or issued hereafter to employees, officers, directors, contractors, consultants or advisers to, the Company or any subsidiary of the Company pursuant to incentive agreements, stock purchase or stock option plans, stock bonuses or awards, warrants, contracts or other arrangements that are approved by the Company's Board of Directors (the "Board"); (e) any other shares of Common Stock or Preferred Stock (and/or options or warrants therefor) issued or issuable primarily for other than equity financing purposes and approved by the Board; and (f) shares of Common Stock issued or issuable by the Company to the public pursuant to a registration statement filed under the Securities Act.

3. Procedures. In the event that the Company proposes to undertake an issuance of New Securities, it shall give to SIFP a written notice of its intention to issue New Securities (the "Notice"), describing the type of New Securities and the price and the general terms upon which the Company proposes to issue such New Securities. SIFP shall have ten (10) days from the date it receives such Notice, to agree in writing to purchase SIFP's Pro Rata Share of such New Securities for the price and upon the general terms specified in the Notice by giving written notice to the Company and stating therein the quantity of New Securities to be purchased (not to exceed SIFP's Pro Rata Share).

4. Failure to Exercise. In the event that SIFP fails to exercise in full the right of first refusal within such ten (10) day period, then the Company shall have one hundred twenty (120)

days thereafter to sell the New Securities with respect to which SIFP's right of first refusal hereunder was not exercised, at a price and upon general terms not materially more favorable to the purchasers thereof than specified in the Company's Notice to SIFP. In the event that the Company has not issued and sold the New Securities within such one hundred twenty (120) day period, then the Company shall not thereafter issue or sell any New Securities without again first offering such New Securities to SIFP pursuant to this Participation Right.

APPENDIX C

REPRESENTATIONS AND WARRANTIES OF THE HOLDER

The Holder represents and warrants to the Company as follows:

A. Investment Intent; Authority. Holder hereby represents and warrants that Holder is acquiring the Note for the Holder's own account, not as nominee or agent, for investment and not with a view to, or for resale in connection with, any distribution or public offering thereof within the meaning of the Securities Act of 1933, as amended (the "*Securities Act*"), or any state securities laws. The Holder has the full right, power, authority and capacity to enter into and perform this Note and this Note, when executed and delivered by the Holder, will constitute the valid and binding obligation of the Holder enforceable in accordance with its terms, subject to (i) laws of general application relating to specific performance, injunctive relief or other equitable remedies, and (ii) applicable bankruptcy, insolvency, reorganization or other laws of general application relating to or affecting the enforcement of creditors' rights generally.

B. Restricted Securities. The Holder understands that this Note and any securities issued pursuant to the conversion of this Note are "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 law and applicable regulations such securities may be resold without registration under the Securities Act only in certain limited circumstances. The Holder represents that it is familiar with Rule 144, as presently in effect, and understands the resale limitations imposed thereby and by the Securities Act.

C. Accredited Investor. The Holder is an "accredited investor" as that term is defined in Regulation D promulgated by the Securities and Exchange Commission under the Securities Act. The Holder is a resident of the state set forth herein.

D. Information Made Available to Holder. Holder acknowledges that the Company has made available to the Holder, or to the Holder's attorney, accountant or representative, all documents that the Holder has requested, and the Holder has requested all documents and other information that the Holder has deemed necessary to consider in connection with an investment in the Company. Holder acknowledges that they have had an opportunity to consult with Company's management regarding Company's prospects and the risks associated with Company's business. Holder acknowledges that they have had an opportunity to review financial information relating to the Company's business. Holder is familiar with the current capitalization and ownership of the Company.