ARCH CAPITAL ADVISORS

TERM SHEET
Mezzanine Debt

This term sheet does not constitute an offer and is solely for discussion purposes. This term sheet shall not be construed as creating any obligations on any party whatsoever, and shall not be binding on any party unless the conditions contained herein are satisfied and the terms of the proposed investment are contained within definitive documents which are negotiated, executed and delivered in connection with the closing of such investment.

Borrower/Issuer:	[__________] and its controlled affiliates and subsidiaries ("Issuer" or the "Company").
Equity Sponsors:	[__________], and other person acceptable to Purchaser (including any affiliates thereof).
Subordinated Notes/[Principal Amount]:	Subordinated Notes in a principal amount up to $[_________] (the "Notes").
Purchaser:	[ ] ("Purchaser").
Credit Facilities:	[________].
Agent, Arranger, Underwriter:	[________].
Expiration:	This Term Sheet expires on [___]. An extension may be granted by Purchaser at the formal request of the Borrower and/or Equity Sponsor.
Targeted Closing Date:	[________].
Purchase Price:	[___]% of the Face Amount ("Par"). If market conditions change, Purchaser has the right to review the pricing structure.
Amortization:	Bullet payment at Maturity.
Maturity:	[___________] years from closing.
Purpose:	To provide financing for the [acquisition of ______.]
Security:	Secured obligations by second lien on all assets.
Guarantee:	The [Borrower's parent and its] subsidiaries shall provide guarantees of the Notes in form satisfactory to Purchaser.

Interest Rate:	The Notes will bear interest at a fixed annual interest rate equal to [____] percent ([_____] %), payable each calendar quarter in arrears, [of which [_____] percent ([____] %) will be paid in cash and [____] percent ([_____] %) will be paid-in-kind.] Interest will be calculated on the basis of a 360 day year of twelve 30 day months.
Up Front Fee:	Purchaser will receive a fee equal to [___] percent [___]% of the total amount of the Notes purchased by Purchaser at closing.
Default Rate:	[__]% in excess of the applicable rate.
Optional Prepayment	The Notes may be prepaid in accordance with the schedule below at the following redemption prices (expressed in percentages of principal amount to be repaid), plus accrued interest to the date of prepayment:

Loan Year	Redemption Price
1	[___]%
2	[___]%
3	[___]%
4	[___]%
5	[___]%
thereafter	[___]%

Mandatory Repayment:	The Company may be required by the Purchaser to repay the Notes upon a Liquidity Event (defined as a liquidation, winding up, change of control, merger, sale of all or substantially all of the assets of the Company or an initial public offering). Repayments under this clause will be at the prices set forth above under the Optional Prepayment clause.
Subordination:	The Notes will be subordinate in payment to the senior debt of the Borrower or terms acceptable to Purchaser. Other customary terms and conditions, as well as provisions will be applied. The Notes will be senior to all existing and future subordinated debt and seller debt.

Warrants [or Equivalent Shares]:

[At the closing of the transaction, the Purchaser will receive detachable and freely transferable warrants or other securities which provide an equivalent equity value in the Company (the “Warrants”) to acquire [____]% of the fully diluted stock or value in the Company at closing. The Warrants will have a nominal exercise price and will include a cashless exercise feature as well as put provisions. In addition, Purchaser will receive demand, and unlimited piggyback registration rights; tag along/co-sale, pre-emptive and anti-dilution provisions satisfactory to Purchaser.]

or

[The Subordinated Notes will be sold with detachable and transferable warrants for the purchase of shares at a nominal price (including a cashless exercise feature) representing [__]% of the fully diluted stock. This warrant position assumes that all of the equity contributed by the Equity Sponsors will be in the form of common stock, and should the contribution be made in a form of security which provides for any form of dividend in cash or payment-in-kind, then the warrant amount shall be adjusted on or before the closing of the Acquisition to maintain a return to the investors as if the equity had been contributed as common equity. The warrants will expire [__] years from closing, be immediately exercisable, and will have one demand registration and unlimited "piggy-back" registration rights (in each case, at the Borrower's expense) with respect to stock issued upon exercise, customary anti-dilution provisions that will include dilution protection in the event of issuances below the common stock price (or common stock equivalent) paid by the Equity Sponsors and issuances to management and will contain put and call provisions, preemptive rights and other terms and conditions, in each case acceptable to Purchaser. In the event of a sale of all or substantially all of the stock or assets of the Borrower, the stock issuable upon the exercise of the warrants will be subject to “drag-along” and have the benefit of “tag-along” provisions.]

Registration Rights:

After an Initial Public Offering, the warrant holders will have a single demand registration right on Form S-1 and unlimited demand registration rights on Form S-3, all at the Borrower’s expense. The warrant holders will also have a pro rata participation right in the event of any private disposition of a controlling interest in the Borrower. The Borrower will have the right to require the warrant holders to participate on a pro rata basis in any such liquidity event.

Board of Directors/[Observer Rights]:	Purchaser will have the right to elect [__] members to the Company's Broad of Directors, or alternatively, Purchaser will be allowed to send [__] observers to all regular and special meetings of the Board of Directors of the Company.
Financial and Other Covenants:	The Note and Warrant Purchase Agreement will contain customary covenants (the terms of which will be defined in the Note and Warrant Purchase Agreement) including, but not limited to: - Limitations on indebtedness, material changes, change of control, liens, restricted payments and investments, asset sales, capital expenditures, changes in nature of business, mergers, acquisitions, dividends, etc.; - Maintenance of existence; - Maintenance of eligibility in SBIC program; - Minimum Fixed Charge Coverage [and Interest Coverage] Ratio[s]; - Minimum EBITDA; - Leverage Ratio; - Limitation of Capital Expenditures; and - [Maintenance of Minimum Tangible Net Worth.]
Documentation:	Documentation will contain such terms, conditions, representations, warranties, reporting requirements, covenants, including financial covenants customary for investments of this type, and subordination terms as Purchaser or its affiliates may require.
Reporting Requirements:	Borrower will furnish the following reports, including, but not limited to: • Audited financial statements on a [annual][quarterly] basis and unaudited financial statements on a [monthly basis] • Any other reports that the Purchaser may reasonably request and as necessary for the Purchaser to comply with the regulations of the Small Business Investment Company Act as required by law.

Conditions to Closing/[Funding]:

Conditions to closing will include, without limitation, the following:

- The terms, conditions and structure of the [acquisition] (and all documents related thereto) shall be in form and substance satisfactory to Purchaser and its counsel and all transactions contemplated thereunder shall have been consummated as set forth therein and no conditions or material provisions contained therein shall have been waived or amended unless agreed to by Purchaser;
- The negotiation, execution and delivery of definitive documentation, including the Note and Warrant Purchase Agreement, the Notes and the Warrants (in form and substance satisfactory to Purchaser and its counsel);
- Purchaser shall have received independent legal, tax, insurance, fairness and accounting opinions satisfactory to Purchaser and its counsel;
- Receipt of (i) SBA Form 480, Size Status Declaration, (ii) SBA Form 652, Assurance for Compliance for Nondiscrimination by the Borrower and (iii) use of proceeds certification
- The absence of any material adverse change or disruption in the financial or capital markets;]
- The absence of any change, which Purchaser deems to be materially adverse, in respect of the business, results of operation, condition (financial or otherwise), value, prospects, liabilities or assets of the Company;
- The management incentive and employment agreements of the Company shall be acceptable to Purchaser and its counsel;
- [A minimum Adjusted EBITDA on a proforma, run-rate basis [______] of at least $[____] million on a basis satisfactory to Purchaser;]
- Satisfactory liquidity in the amount of $[____];
- Satisfactory insurance;
- Satisfactory legal, accounting and financial due diligence;
- Accuracy of representations and warrants under the Note and Warrant Purchase Agreement;

- Approvals of all requisite parties to the Transaction have been received by closing;
- No violation of any securities laws or other applicable laws or regulations;
- No default in any material contracts and absence of any material litigations as of the date of closing and after giving effect to the [acquisition];
- Purchaser shall have received all fees and expenses (including fees and expenses of counsel) on or before the date of the closing of the [Transaction];
- Absence of any defaults or event of default under the Note and Warrant Purchase Agreement, the Notes or any other related documents.
- Receipt by the Company of all third party consents and governmental approvals;
- Satisfaction that there are no material environmental issues;
- No default in any material contracts and absence of any material litigation as of the date of closing and after giving effect to the acquisition;
- The Equity Sponsors shall have made a cash equity investment in the Company of at least $[_____] million (which shall have been made on terms and conditions acceptable to Purchaser); and
- Senior financing in the amount of $[____] will be available to be drawn at closing.

Governing Law: State of [______________].

Events of Default: Customary Events of Default will include but are not limited to: (i) failure to pay interest or principal when due and payable; (ii) failure to comply with the covenants in the securities purchase agreement; (iii) defaults under other agreements; (iv) breaches of representations and warranties; (v) failure to discharge material judgments; and (vi) bankruptcy or insolvency.

Assignment/Transfer of Notes:	The Purchaser may syndicate, assign or sell a portion or all of the Notes.
Transaction Expenses:	The Borrower shall reimburse Purchaser for all expenses related to the transaction (whether or not the transaction closes), including, but not limited to, legal fees and disbursements, consulting fees (which consultants shall be agreed upon with the equity sponsors prior to their engagement), and out-of-pocket expenses (including travel and incidental expenses, etc.).
[Syndication:]	[Purchaser intends to syndicate a portion of the Notes to other financial institutions. The Borrower and the Equity Sponsors agree to assist and facilitate the Agent's syndication process.]
Market Conditions:	The Borrower acknowledges and agrees that the financing commitment is subject to the absence of a material adverse change in the condition (whether financial or otherwise) or results of operations of the Borrower and/or its affiliated entities since the period ended ____________, ____. [Furthermore, the financing commitment is subject to the absence of any material disruption of or material adverse change in current financial, banking or capital market conditions that, in Purchaser's judgment, could materially impair the satisfactory syndication of the Notes.]
Good Faith Deposit:	The Issuer shall pay to Purchaser a good faith deposit in the amount of $[____], which upon closing of the transaction will be credited toward the Up Front Fee. Should the equity sponsors decline to proceed with the financings as described herein for any reason, Purchaser shall retain the deposit as compensation for its time and effort in connection with the requested financing.
Opportunity Cost Fee:	If the transaction proposed herein is closed within one year from the end of the Exclusivity Period, without Purchaser financing, and Purchaser is prepared to consummate the proposed financing on substantially the same terms set forth herein, then an Opportunity Cost Fee will be paid to Purchaser equal to [__]% of the proposed principal amount of the notes that Purchaser was prepared to purchase.

Termination Fee: Additionally, if a termination fee is paid to the Equity Sponsors or their affiliates pursuant to any agreement, then a fee equal to [__] % of the amount remaining after the out-of-pocket expenses of the equity sponsors are deducted from the termination fee received by the equity sponsors shall be payable in cash to Purchaser within ten business days of the equity sponsors receiving such payment. This fee will be in addition to any other fees previously paid to Purchaser.

No Shop Clause: Upon acceptance of this commitment, the Equity Sponsors and the Company agree that until the earlier of (i) closing of the Transaction and (ii) [________], the Equity Sponsors and the Company will not, and will not permit any of their affiliates to, syndicate or issue, attempt to syndicate or issue, announce or authorize the announcement of the syndication or issuance of, or engage in discussions concerning the syndication or issuance of, any debt facility other than the Notes financing contemplated hereby or solicit any proposal or commitment or engage in any discussions or negotiations concerning the financing of the Transaction by any person other than Purchaser as contemplated hereunder.

Pricing Terms: Purchaser shall be entitled, after consultation with the Equity Sponsors and the Borrower, to change the pricing, terms and structure of the Notes if the Syndication has not been completed and if Purchaser determines that such changes are advisable to insure a successful syndication of the Notes.

Indemnification:	The Equity Sponsors and the Borrower (each an "indemnifying person"), jointly and severally, agree to indemnify and hold harmless Purchaser and any and all other financial institutions or banks that become a lender or purchaser under the Notes, each affiliate thereof and each director, officer, employee, agent or representative thereof (each an "indemnified person") in connection with any losses, claims, damages, liabilities or other expenses to which such indemnified persons may become subject, insofar as such losses, claims, damages, liabilities (or actions or other proceedings commenced or threatened in respect thereof) or other expenses arise out of or in any way relate to or result from the [acquisition] or this letter or the issuance of the Notes contemplated by this letter, or in any way arise from any use or intended use of this letter or the proceeds of the Subordinated Notes, and the Equity Sponsors and the Borrower, jointly and severally, agree to reimburse each indemnified person for any reasonable legal or other expenses incurred in connection with investigating, defending or participating in any such loss, claim, damage, liability or action or other proceeding (whether or not such indemnified person is a party to any action or proceeding out of which indemnified expenses arise).
Required Documents/Due Diligence Issues:	Prior to closing, Borrower will provide the following due-diligence documents, and any other information deemed necessary by Purchaser to complete its credit review process, the form and substance of which must be acceptable to Purchaser: • Legal, tax and accounting opinions provided by firms acceptable to Purchaser; • Consolidated audited financial statements of the Borrower for the past three years; • A comprehensive business plan, including financial projections of the operations of Borrower for the next seven years; • Visit with management; • Visit of Company's facilities; • Interviews with customers, suppliers, etc.; • Data Room visit; • All available relevant consultant reports will be submitted to Purchaser; • Available industry reports will be made accessible; and • Customary background checks will be initiated.