

Sample Private Placement Memorandum



ABC CORPORATION**1,250,000 Shares****SERIES 1 CONVERTIBLE PREFERRED STOCK****\$2.00 per Share**

We are offering a minimum of 500,000 and a maximum of 1,250,000 shares of our Series 1 Convertible Preferred Stock (the "Shares"). There is no public market for the Shares or any other securities of our company, and no such market will develop as a result of this offering.

THE SHARES OFFERED HEREBY ARE HIGHLY SPECULATIVE, AND AN INVESTMENT IN SHARES INVOLVES A HIGH DEGREE OF RISK AND IMMEDIATE AND SUBSTANTIAL DILUTION FROM THE OFFERING PRICE. SEE "RISK FACTORS" AND "DILUTION."

THE SHARES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS, AND ARE BEING OFFERED AND SOLD IN RELIANCE ON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THESE LAWS. THE SHARES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE REGULATORY AUTHORITY NOR HAS THE COMMISSION OR ANY STATE REGULATORY AUTHORITY PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OR THE ACCURACY OR ADEQUACY OF THIS PRIVATE PLACEMENT MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL. THE SHARES MAY NOT BE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL IN FORM AND SUBSTANCE ACCEPTABLE TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED.

	Number of Shares Offered ⁽¹⁾	Offering Price	Selling Commissions ^{(2) (3)}	Proceeds to Company ⁽⁴⁾
Per Share	---	\$ 2.00	\$ 0.20	\$ 1.80
Total Minimum	500,000	\$1,000,000	\$100,000	\$ 900,000
Total Maximum	1,250,000	\$2,500,000	\$250,000	\$2,250,000

(1) We are offering a minimum of 500,000 and a maximum of 1,250,000 Shares at the price indicated. See "Terms of the Offering."

(2) Estimated total commissions based on 10% of the offering price of the Shares sold to investors. Excludes a non-accountable expense allowance of 2% of the proceeds of this offering and the value of a five-year warrant to purchase up to 125,000 additional Shares at a price of \$2.40 per share to XYZ, Inc. (the "Placement Agent"). We also have agreed to indemnify the Placement Agent against certain civil liabilities, including liabilities under the Securities Act.

(3) The Placement Agent has agreed to offer the Shares on an agency and "best efforts" basis. The offering will be terminated if the minimum number of Shares is not subscribed for by October 31, 2001, unless sooner terminated or extended as provided herein. Funds paid by investors will be held in an escrow account and will be returned promptly if the offering is terminated. The minimum investment is \$20,000, subject to our right to accept a lesser amount.

(4) Before deducting offering expenses payable by us, estimated to be approximately \$50,000, and the non-accountable expense allowance payable to the Placement Agent of up to \$50,000.

XYZ, Inc.**The date of this Private Placement Memorandum is October 1, 2001.**

No person has been authorized to give any information or to make any representations in connection with the offer made by this private placement memorandum, nor has any person been authorized to give any information or make any representations other than those contained in this private placement memorandum, and if given or made, such information or representations must not be relied upon. This private placement memorandum does not constitute an offer to sell or solicitation of an offer to buy in any jurisdiction in which such offer or solicitation would be unlawful or to any person to whom it is unlawful to make such offer or solicitation. Neither the delivery of this private placement memorandum nor any sale made hereunder shall, under any circumstances, create an implication that there as has been no change in the affairs of our company since the date hereof.

This private placement memorandum is submitted on a confidential basis for use by a limited number solely in consideration of the purchase of the Shares described herein in a private placement. The acceptance of this private placement memorandum constitutes an agreement on the part of the recipient hereof and the recipient's representatives to maintain the confidentiality of the information contained herein. This private placement memorandum may not be reproduced in whole or in part. The use of this private placement memorandum for any purpose other than an investment in the Shares described herein is not authorized and is prohibited.

TABLE OF CONTENTS

	<u>Page</u>
Summary.....	1
Risk Factors	6
Use of Proceeds	11
Capitalization.....	12
Dilution.....	12
Selected Financial Data	14
Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Business	16
Management	17
Certain Transactions	19
Principal Stockholders	19
Description of Securities	20
Terms of the Offering	24
Legal Matters	25
Experts	26
Additional Information	26

SUMMARY

The following summary is qualified in its entirety by the detailed information appearing elsewhere in this private placement memorandum. See "Risk Factors" for information to be considered by prospective investors. All information in this private placement memorandum assumes a one-for-three reverse stock split, various modifications to the terms of the Existing Preferred Stock, and the conversion of certain outstanding debt into Series E Preferred Stock.

The Company

Introduction

We provide solutions that _____. These solutions include providing _____. We believe we differentiate our services by _____.

The principal services we provide for _____ currently include the following:

-
-

Market Opportunity and Strategy

_____ reports that the _____ market was \$205 million in 1997 and is estimated to grow to \$12 billion by the end of 2001. The Gartner Group predicts that by 2003, more than 137 million users worldwide, including one-third of the U.S. work force, will be engaging in some form of remote access. We believe the following are key driving forces behind our current market opportunity:

- ☐ the growth of _____,
- ☐ the increasing demand for _____,
- ☐ the increase in remote access _____,
- ☐ the increasing demand for _____, and
- ☐ the adoption of _____.

Our goal is to be a leading single-source provider of solutions that _____. Key elements of the strategy to achieve this goal include the following:

-
-
-
-

Principal Offices

Our principal offices are located at _____, _____, telephone (____) _____, facsimile (____) _____. We were incorporated in Delaware in 1999.

The Offering

Securities Offered

We are offering a minimum of 500,000 and a maximum of 1,250,000 Shares at \$2.00 per share. The minimum purchase per investor is 10,000 Shares, or \$20,000.

The Shares will be convertible into Common Stock on a one-for-one basis, subject to adjustments to reflect any stock splits, stock dividends, and recapitalizations (the "Conversion Ratio"). At the option of the holders, the Shares will be convertible into Common Stock at the then Conversion Ratio at any time prior to redemption. The Shares will be converted automatically into Common Stock at the Conversion Ratio then in effect upon the closing of an initial public offering.

The Shares will have a Liquidation Preference over the Existing Preferred Stock (as defined below) and the Common Stock in an amount equal to the purchase price per share plus any accrued and unpaid dividends. Unless previously converted, the Shares will be redeemable at our option at a price equal to the Liquidation Preference, and at the option of the holders at a price equal to the Liquidation Preference plus 4% per annum, commencing four and ten years, respectively, after the completion of this offering. In the event of any liquidation, dissolution, or winding up of our company, the Shares will have a preference over our Common Stock and any outstanding Existing Preferred Stock in an amount equal to the Liquidation Preference of the Shares. For this purpose, a merger or consolidation that results in the stockholders of our company owning 50% or less of the voting power of the surviving entity or a sale of substantially all of our assets (each a "Change in Control") will be treated as a liquidation. However, holders of the Shares may elect to convert the Shares into Common Stock immediately prior to any such event, in which case they would receive consideration upon the event as holders of Common Stock in lieu of a Liquidation Preference.

The holders of the Shares will have voting rights equal to the same proportion of Common Stock to be owned after conversion and will have certain registration rights as described herein and, voting as a class, will be entitled to vote upon certain matters that would adversely affect their rights and preferences as holders of Shares and to elect no less than one member of our Board of Directors. See "Description of Securities - Series 1 Convertible Shares."

Use of Proceeds

The net proceeds of this offering will be used to expand our marketing, sales, and distribution capabilities; purchase or lease touch screen terminals for the electronic ordering and sale of our products and services; implement our ordering system; provide funding for strategic acquisitions; and provide working capital. We believe that the net proceeds will be sufficient to fund our operations for approximately 12 to 15 months in the event of the Maximum offering.

Shares Outstanding

There are currently outstanding 150,000 shares of our Common Stock; 700,000 shares of our Series A Convertible Preferred Stock, 200,000 shares of our Series B Convertible Preferred Stock, 400,000 shares of our Series C Convertible Preferred Stock, 800,000 shares of our Series D Convertible Preferred Stock, and 400,000 shares of our Series E Convertible Preferred Stock (the "Existing Preferred Stock"). The Existing Preferred Stock is convertible into Common Stock on a one-for-one basis, subject to adjustments to reflect any stock splits, stock dividends, and recapitalizations. Assuming completion of this offering and the conversion of the Shares and the Existing Preferred Stock, we would have outstanding 3,150,000 shares of Common Stock (if the minimum number of Shares is sold) or 3,900,000 shares of Common Stock (if the maximum number of Shares is sold). In addition, we will issue to the Placement Agent five-year warrants to purchase up to 125,000 Shares at a price of \$2.40 per share. Furthermore, we have the right to grant stock options to acquire up to 800,000 shares of Common Stock under our 1999 Stock Option Plan. There are options outstanding to purchase 200,000 shares of Common Stock at this time.