



**TERM SHEET  
FOR SERIES A PREFERRED STOCK FINANCING OF  
GAMING SOLUTIONS IQ, INC.  
JUNE 15, 2012**

This Term Sheet summarizes the principal terms of the Series A Preferred Stock Financing of Gaming Solutions IQ, Inc., a Delaware corporation (the “**Company**”). In consideration of the time and expense devoted and to be devoted by the Investors with respect to this investment, the No Shop/Confidentiality and Counsel and Expenses provisions of this Term Sheet shall be binding obligations of the Company whether or not the financing is consummated. No other legally binding obligations will be created until definitive agreements are executed and delivered by all parties. This Term Sheet is not a commitment to invest, and is conditioned on the completion of due diligence, legal review and documentation that is satisfactory to the Investors. This Term Sheet shall be governed in all respects by the laws of the State of Delaware.

**Offering Terms**

*Closing Dates:*

The first closing shall occur as soon as practicable following the Company’s acceptance of this Term Sheet and satisfaction of the Conditions to Closing (the “**First Closing**”). The second closing shall occur as soon as practicable following the achievement by the Company of the milestones set forth on Exhibit A (the “**Second Closing**”).

*Investors:*

Ravenous Ventures IV, L.P. (“Ravenous” or the “Investors”): Up to 1,685,156 shares (£ 1,200,000)(£ 600,000 in the First Closing and up to £ 600,000 in the Second Closing, plus any otherwise unsubscribed for Series A shares from the First Closing and/or Second Closing); as well as other investors mutually agreed by Investors and Company: Up to 421,289 shares (£ 150,000 in the First Closing and up to (£ 150,000 in the Second Closing).

*Amount Raised:*

Up to £ 1,500,000, including £ 750,000 in the First Closing, and £ 750,000 in the Second Closing.

*Price Per Share:*

£ 0.7121 per share (based on the capitalization of the Company set forth below) (the “**Original Purchase Price**”).

*Pre-Money Valuation:*

The Original Purchase Price is based upon a fully-diluted pre-money valuation of £ 3,000,000 and a fully-diluted post-money valuation of £ 4,500,000 (including an employee pool representing 20% of the fully-diluted post-money capitalization).

*Capitalization:*

The Company’s capital structure before and after the Closing is set forth on Exhibit B.



## CHARTER<sup>1</sup>

*Dividends:* 8% non-cumulative dividends will be paid on the Series A Preferred when and if declared by the Board; pro rata participation in any Common Stock dividends.

*Liquidation Preference:* In the event of any liquidation, dissolution or winding up of the Company, the proceeds shall be paid as follows:

First pay two (2) times the Original Purchase Price plus declared and unpaid dividends on each share of Series A Preferred. Thereafter, the Series A Preferred participates with the Common Stock pro rata on an as-converted basis.

A merger or consolidation (other than one in which stockholders of the Company own a majority by voting power of the outstanding shares of the surviving or acquiring corporation) and a sale, lease, transfer, exclusive license or other disposition of all or substantially all of the assets of the Company will be treated as a liquidation event (a “**Deemed Liquidation Event**”), thereby triggering payment of the liquidation preferences described above unless the holders of a majority of the Series A Preferred elect otherwise. The Investors' entitlement to their liquidation preference shall not be abrogated or diminished in the event part of the consideration is subject to escrow in connection with a Deemed Liquidation Event.

*Voting Rights:* The Series A Preferred shall vote together with the Common Stock on an as-converted basis, and not as a separate class, except (i) so long as 500,000 shares of Series A Preferred are outstanding, the Series A Preferred as a class shall be entitled to elect two (2) members of the Board (the “**Series A Director**”), and (ii) as required by law. The Company's Certificate of Incorporation will provide that the number of authorized shares of Common Stock may be increased or decreased with the approval of a majority of the Preferred and Common Stock, voting together as a single class, and without a

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<sup>1</sup> The Charter (Certificate of Incorporation) is a public document, filed with the Secretary of State of the state in which the company is incorporated, that establishes all of the rights, preferences, privileges and restrictions of the Preferred Stock.



separate class vote by the Common Stock.<sup>2</sup>

*Protective Provisions:*

So long as 500,000 shares of Series A Preferred are outstanding, in addition to any other vote or approval required under the Company's Charter or By-laws, the Company will not, without the written consent of the holders of at least majority of the Company's Series A Preferred, either directly or by amendment, merger, consolidation, or otherwise:

- (i) liquidate, dissolve or wind-up the affairs of the Company, or effect any merger or consolidation or any other Deemed Liquidation Event;
- (ii) amend, alter, or repeal any provision of the Certificate of Incorporation or Bylaws;
- (iii) create or authorize the creation of or issue any other security convertible into or exercisable for any equity security, having rights, preferences or privileges senior to or on parity with the Series A Preferred, or increase the authorized number of shares of Series A Preferred;
- (iv) purchase or redeem or pay any dividend on any capital stock prior to the Series A Preferred, other than stock repurchased from former employees or consultants in connection with the cessation of their employment/services, at the lower of fair market value or cost; or
- (v) create or authorize the creation of any debt security if the Company's aggregate indebtedness would exceed £ 50,000, other than equipment leases or bank lines of credit, unless such debt security has received the prior approval of the Board of Directors, including the approval of the Series A Director;
- (vi) create or hold capital stock in any subsidiary that is not a wholly-owned subsidiary or dispose of any subsidiary stock or all or substantially all of any subsidiary assets;
- (vii) enter into any exclusive license, lease, sale, distribution or other disposition of its products or intellectual property;
- (viii) make any gifts or charitable donations above £ 5,000 in the aggregate per annum; or
- (ix) increase or decrease the size of the Board of Directors.<sup>3</sup>

*Optional Conversion:*

The Series A Preferred initially converts 1:1 to Common Stock at any time at option of holder, subject to adjustments for stock dividends, splits, combinations and similar events and as described below under "Anti-dilution Provisions."

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<sup>2</sup> For corporations incorporated in California, one cannot "opt out" of the statutory requirement of a separate class vote by Common Stockholders to authorize shares of Common Stock. The purpose of this provision is to "opt out" of Delaware General Corporation Law 242(b)(2).

<sup>3</sup> The board size provision may also be addressed in the Voting Agreement.



*Anti-dilution Provisions:*

In the event that the Company issues additional securities at a purchase price less than the current Series A Preferred conversion price, such conversion price shall be adjusted in accordance with the following formula:

“Broad-based” weighted average:

$$CP_2 = CP_1 * (A+B) / (A+C)$$

CP<sub>2</sub> = Series A Conversion Price in effect immediately after new issue

CP<sub>1</sub> = Series A Conversion Price in effect immediately prior to new issue

A = Number of shares of Common Stock deemed to be outstanding immediately prior to new issue (includes all shares of outstanding common stock, all shares of outstanding preferred stock on an as-converted basis, and all outstanding options on an as-exercised basis; and does not include any convertible securities converting into this round of financing)<sup>4</sup>

B = Aggregate consideration received by the Corporation with respect to the new issue divided by CP<sub>1</sub>

C = Number of shares of stock issued in the subject transaction

The following issuances shall not trigger anti-dilution adjustment:<sup>5</sup>

(i) securities issuable upon conversion of any of the Series A Preferred, or as a dividend or distribution on the Series A Preferred; (ii) securities issued upon the conversion of any debenture, warrant, option, or other convertible security; (iii) Common Stock issuable upon a stock split, stock dividend, or any subdivision of shares of Common Stock; and (iv) shares of Common Stock (or options to purchase such shares of Common Stock) issued or issuable to employees or directors of, or consultants to, the Company pursuant to any plan approved by the

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<sup>4</sup> The "broadest" base would include shares reserved in the option pool.

<sup>5</sup> Note that additional exclusions are frequently negotiated, such as issuances in connection with equipment leasing and commercial borrowing.

Company's Board of Directors including the Series A Director.

*Mandatory Conversion:* Each share of Series A Preferred will automatically be converted into Common Stock at the then applicable conversion rate in the event of the closing of a firm commitment underwritten public offering with a price of four times the Original Purchase Price (subject to adjustments for stock dividends, splits, combinations and similar events) and gross proceeds to the Company of not less than \$30 million (a "QPO"), or (ii) upon the written consent of the holders of a majority of the Series A Preferred.<sup>6</sup>

*Redemption Rights:*<sup>7</sup> Unless prohibited by Delaware law governing distributions to stockholders, the Series A Preferred shall be redeemable at the option of holders of at least a majority of the Series A Preferred commencing any time after the seven (7) year anniversary of the First Closing at a price equal to the Original Purchase Price plus all accrued but unpaid dividends. Redemption shall occur in three equal annual portions. Upon a redemption request from the holders of the required percentage of the Series A Preferred, all Series A Preferred shares shall be redeemed (except for any Series A holders who affirmatively opt-out).

### **STOCK PURCHASE AGREEMENT**

*Representations and Warranties:* Standard representations and warranties by the Company. Representations and warranties by Founders regarding technology ownership, etc.<sup>8</sup>

*Conditions to Closing:* Standard conditions to Closing, which shall include, among other things, satisfactory completion of financial and legal due diligence,

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<sup>6</sup> The per share test ensures that the investor achieves a significant return on investment before the Company can go public. Also consider allowing a non-QPO to become a QPO if an adjustment is made to the Conversion Price for the benefit of the investor, so that the investor does not have the power to block a public offering.

<sup>7</sup> Redemption rights allow Investors to force the Company to redeem their shares at cost (and sometimes investors may also request a small guaranteed rate of return, in the form of a dividend). In practice, redemption rights are not often used; however, they do provide a form of exit and some possible leverage over the Company.

<sup>8</sup> Founders' representations are controversial and may elicit significant resistance as they are found in a minority of venture deals. They are more likely to appear if Founders are receiving liquidity from the transaction, or if there is heightened concern over intellectual property (e.g., the Company is a spin-out from an academic institution or the Founder was formerly with another company whose business could be deemed competitive with the Company), or in *international* deals. Founders' representations are even less common in subsequent rounds, where risk is viewed as significantly diminished and fairly shared by the investors, rather than being disproportionately borne by the Founders.



qualification of the shares under applicable Blue Sky and/or foreign securities laws, the filing of a Certificate of Incorporation establishing the rights and preferences of the Series A Preferred, and an opinion of counsel to the Company.

*Counsel and Expenses:*

Company counsel to draft closing documents. Company to pay all legal and administrative costs of the financing at Closing, including reasonable fees (not to exceed £ 25,000) and expenses of Investor counsel.

Company Counsel: Schwartz & Shields LLP

Investor Counsel: Dewey Cheatem & Howe LLP

**INVESTORS' RIGHTS AGREEMENT**

*Registration Rights:*

*Registrable Securities:* All shares of Common Stock issuable upon conversion of the Series A Preferred and any other Common Stock held by the Investors will be deemed "**Registrable Securities.**"<sup>9</sup>

*Demand Registration:* Upon earliest of (i) five years after the Closing; or (ii) six months following an initial public offering ("**IPO**"), persons holding 40% of the Registrable Securities may request one (consummated) registration by the Company of their shares. The aggregate offering price for such registration may not be less than £ 10 million. A registration will count for this purpose only if (i) all Registrable Securities requested to be registered are registered and (ii) it is closed, or withdrawn at the request of the Investors (other than as a result of a material adverse change to the Company).

*Registration on Form S-3:* The holders of 10% of the Registrable Securities will have the right to require the Company to register on Form S-3, if available for use by the Company, Registrable Securities for an aggregate offering price of at least £ 3 million. There will be no limit on the aggregate number of such Form S-3 registrations, provided that there are no more than two per year.

*Piggyback Registration:* The holders of Registrable Securities will be entitled to "piggyback" registration rights on all registration statements of the Company, subject to the right, however, of the Company and its underwriters to

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<sup>9</sup> Note that Founders/management sometimes also seek limited registration rights.



reduce the number of shares proposed to be registered to a minimum of 30% on a pro rata basis and to complete reduction on an IPO at the underwriter's discretion. In all events, the shares to be registered by holders of Registrable Securities will be reduced only after all other stockholders' shares are reduced.

*Expenses:*

The registration expenses (exclusive of stock transfer taxes, underwriting discounts and commissions) will be borne by the Company. The Company will also pay the reasonable fees and expenses, not to exceed £ 25,000, of one special counsel to represent all the participating stockholders.

*Lock-up:*

Investors shall agree in connection with the IPO, if requested by the managing underwriter, not to sell or transfer any shares of Common Stock of the Company (including/excluding shares acquired in or following the IPO) for a period of up to 180 days plus up to an additional 18 days to the extent necessary to comply with applicable regulatory requirements following the IPO (provided all directors and officers of the Company 1% stockholders agree to the same lock-up). Such lock-up agreement shall provide that any discretionary waiver or termination of the restrictions of such agreements by the Company or representatives of the underwriters shall apply to Investors, pro rata, based on the number of shares held.

*Termination:*

Upon a Deemed Liquidation Event, and/or when all shares of an Investor are eligible to be sold without restriction under Rule 144 and/or the fifth anniversary of the IPO.

No future registration rights may be granted without consent of the holders of a majority of the Registrable Securities unless subordinate to the Investor's rights.

*Management and Information Rights:*

A Management Rights letter from the Company, in a form reasonably acceptable to the Investors, will be delivered prior to Closing to each Investor that requests one.

Any Major Investor (who is not a competitor) will be granted access to Company facilities and personnel during normal business hours and with reasonable advance notification. The Company will deliver to such Major Investor (i) annual, quarterly, and monthly financial statements, and other information as determined by the Board; (ii) thirty days prior to the end of each fiscal year, a comprehensive operating budget forecasting the Company's revenues, expenses, and cash position on a month-to-month basis for the upcoming fiscal year;



and (iii) promptly following the end of each quarter an up-to-date capitalization table. A “Major Investor” means any Investor who purchases at least £ 150,000 of Series A Preferred.

*Right to Participate Pro Rata in Future Rounds:*

All Major Investors shall have a pro rata right, based on their percentage equity ownership in the Company (assuming the conversion of all outstanding Preferred Stock into Common Stock and the exercise of all options outstanding under the Company’s stock plans), to participate in subsequent issuances of equity securities of the Company (excluding those issuances listed at the end of the “Anti-dilution Provisions” section of this Term Sheet. In addition, should any Major Investor choose not to purchase its full pro rata share, the remaining Major Investors shall have the right to purchase the remaining pro rata shares.

*Matters Requiring Investor Director Approval:*

So long as the holders of Series A Preferred are entitled to elect a Series A Director, the Company will not, without Board approval, which approval must include the affirmative vote of the Series A Director:

- (i) make any loan or advance to, or own any stock or other securities of, any subsidiary or other corporation, partnership, or other entity unless it is wholly owned by the Company;
- (ii) make any loan or advance to any person, including, any employee or director, except advances and similar expenditures in the ordinary course of business or under the terms of a employee stock or option plan approved by the Board of Directors;
- (iii) guarantee, any indebtedness except for trade accounts of the Company or any subsidiary arising in the ordinary course of business;
- (iv) make any investment inconsistent with any investment policy approved by the Board;
- (v) incur any aggregate indebtedness in excess of £ 50,000 that is not already included in a Board-approved budget, other than trade credit incurred in the ordinary course of business;
- (vi) enter into or be a party to any transaction with any director, officer or employee of the Company or any “associate” (as defined in Rule 12b-2 promulgated under the Exchange Act) of any such person except transactions resulting in payments to or by the Company in an amount less than £ 50,000 per year, or transactions made in the ordinary course of business and pursuant to reasonable requirements of the Company’s business and upon fair and reasonable terms that are approved by a majority of the Board of Directors;
- (vii) hire, fire, or change the compensation of the executive officers, including approving any option grants;
- (viii) change the principal business of the Company, enter new



lines of business, or exit the current line of business; (ix) sell, assign, license, pledge or encumber material technology or intellectual property, other than licenses granted in the ordinary course of business; (x) enter into any corporate strategic relationship involving the payment contribution or assignment by the Company or to the Company of assets greater than £ 50,000; or (xi) make any gifts or charitable donations above £ 5,000 in the aggregate per annum.

*Non-Competition and Non-Solicitation Agreements:*

Each Founder and key employee will enter into a one year non-competition and non-solicitation agreement in a form reasonably acceptable to the Investors.

*Non-Disclosure and Developments Agreement:*

Each current and former Founder, employee and consultant will enter into a non-disclosure and proprietary rights assignment agreement in a form reasonably acceptable to the Investors.

*Board Matters:*

Each Board Committee shall include at least one Series A Director.

The Board of Directors shall meet at least monthly, unless otherwise agreed by a vote of the majority of Directors.

The Company will bind D&O insurance with a carrier and in an amount satisfactory to the Board of Directors. Company to enter into Indemnification Agreement with each Series A Director and affiliated funds in form acceptable to such director. In the event the Company merges with another entity and is not the surviving corporation, or transfers all of its assets, proper provisions shall be made so that successors of the Company assume the Company's obligations with respect to indemnification of Directors.

*Employee Stock Options:*

All employee options to vest as follows: 25% after one year, with remaining vesting monthly over next 36 months.

Immediately prior to the Series A Preferred Stock investment, 976,596 shares will be added to the option pool creating an unallocated option pool of 976,596 shares.

**RIGHT OF FIRST REFUSAL/CO-SALE AGREEMENT**

*Right of first Refusal/  
Right of Co-Sale*

Company first and Investors second (to the extent assigned by the Board of Directors,) will have a right of first refusal with respect to any shares of capital stock of the Company proposed to be



*(Take-me-Along):*

transferred by Founders and future employees holding greater than 1% of Company Common Stock (assuming conversion of Preferred Stock and whether then held or subject to the exercise of options), with a right of oversubscription for Investors of shares unsubscribed by the other Investors. Before any such person may sell Common Stock, he will give the Investors an opportunity to participate in such sale on a basis proportionate to the amount of securities held by the seller and those held by the participating Investors.<sup>10</sup>

### **VOTING AGREEMENT**

*Board of Directors:*

At the initial Closing, the Board shall consist of five (5) members comprised of (i) [Jason] as one of the representatives designated by Rave, as the lead Investor, (ii) [TBD] as one of the representatives designated by Rave, as the lead Investor, (iii) [Jens] as the Chief Executive Officer of the Company, (iv) [Marnix] as the Non-Executive Chairman of the Company, and (v) one person [who] is not employed by the Company and who is mutually acceptable to the other directors.

*Drag-Along:*

Holders of Preferred Stock and the Founders and all current and future holders of greater than 1% of Common Stock (assuming conversion of Preferred Stock and whether then held or subject to the exercise of options) shall be required to enter into an agreement with the Investors that provides that such stockholders will vote their shares in favor of a Deemed Liquidation Event or transaction in which 50% or more of the voting power of the Company is transferred and which is approved by the Board of Directors and the holders of a majority of the outstanding shares of Preferred Stock, on an as-converted basis (the “**Electing Holders**”), so long as the liability of each stockholder in such transaction is several (and not joint) and does not exceed the stockholder's pro rata portion of any claim and the consideration to be paid to the stockholders in such transaction will be allocated as if the consideration were the proceeds to be distributed to the Company's stockholders in a liquidation under the Company's then-current Certificate of Incorporation.

*Sale Rights:*

Upon written notice to the Company from the Electing Holders, the Company shall initiate a process intended to result in a sale of the

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<sup>10</sup> Certain exceptions are typically negotiated, e.g., estate planning or *de minimis* transfers. Investors may also seek ROFR rights with respect to transfers by investors, in order to be able to have some control over the composition of the investor group.



Company.

**OTHER MATTERS**

*Founders' Stock:*

All Founders to own stock outright subject to Company right to buyback at cost. Buyback right for 25% for first 12 months after Closing; thereafter, right lapses in equal monthly increments over following 36 months.

*No Shop/Confidentiality:*

The Company agrees to work in good faith expeditiously towards a closing. The Company and the Founders agree that they will not, for a period of eight (8) weeks from the date these terms are accepted, take any action to solicit, initiate, encourage or assist the submission of any proposal, negotiation or offer from any person or entity other than the Investors relating to the sale or issuance, of any of the capital stock of the Company or the acquisition, sale, lease, license or other disposition of the Company or any material part of the stock or assets of the Company and shall notify the Investors promptly of any inquiries by any third parties in regards to the foregoing. The Company will not disclose the terms of this Term Sheet to any person other than officers, members of the Board of Directors and the Company's accountants and attorneys and other potential Investors acceptable to Ravenous, as lead Investor, without the written consent of the Investors.

*Expiration:*

This Term Sheet expires on June 29, 2012, if not accepted by the Company by that date.

EXECUTED THIS \_\_\_\_ DAY OF \_\_\_\_\_, 2012.

[SIGNATURE BLOCKS]

## EXHIBIT A

### Second Closing Milestones

Company shall achieve each of the following:

1. Gross community membership base (net of unsubscribes or non-renewals): 1,000,000 members
2. Revenue shall meet or exceed £ 150,000/month for three consecutive months.
3. Gross profit shall meet or exceed £ 10,000/month for three consecutive months.

## EXHIBIT B

### Pre and Post-Financing Capitalization

Security	Pre-Financing		Post-Financing	
	# of Shares	%	# of Shares	%
Common – Founders	2,100,000	70%	2,100,000	32.90%
Common – Angel	360,000	12%	360,000	5.64%
Common – TASA	240,000	8%	240,000	3.76%
Common – Options - Granted	300,000	10%	300,000	4.70%
Common – Options - Reserved	-	-	976,596	15.30%
Series A – First Closing	-	-	1,053,222	16.50%
Series A – Second Closing	-	-	1,053,222	16.50%
Total	3,000,000	100.00	6,383,040	100%

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