

MEMORANDUM OF TERMS  
FOR PRIVATE PLACEMENT OF  
SERIES B PREFERRED STOCK OF  
ARTSPACE MARKETPLACE, INC.

12/21/2012

This memorandum summarizes the principal terms of the Series B round venture capital financing of ARTSPACE MARKETPLACE, INC. (the "Company"). The completion of the transactions contemplated by this memorandum will be subject to, among other things, satisfactory completion of financial and legal due diligence by the Investors, as well as the completion of final documents acceptable to the Investors and the Company.

**Offering Terms**

Issuer:	ARTSPACE MARKETPLACE, INC., a Delaware corporation (the " <u>Company</u> ").	
Investors:	Investor Name	Amount
	<u>Canaan Partners</u>	<u>\$5,800,000</u>
	<u>Others</u>	<u>\$1,200,000</u>
Total Investment:		<u>\$7,000,000</u>
Founders:	Chris Vroom & Catherine Levene (the " <u>Founders</u> ")	
Securities to be issued:	Series B Preferred Stock.	
Price:	The per share price shall reflect a pre-money valuation of \$17,000,000. The number of shares of Common Stock and options available for issuance under the Company's stock option plans shall equal 10% of the fully diluted capitalization of the Company following the closing of the financing.	
Expected Closing Date:	On or about Jan 21, 2013 (the " <u>Closing</u> "). The Company may sell, within 90 days following the Closing, up to \$1,200,000 of additional shares of Series B Preferred Stock not sold at the Closing to purchasers mutually acceptable to the Investors and the Company. Canaan Partners has the option, but not the obligation to invest any of \$1,200,000 not invested by a 3 <sup>rd</sup> party.	

## Terms of Series B Preferred Stock

### *Certificate of Incorporation*

- Dividends:** Annual 8% dividend on the Series B Preferred Stock, payable when and if declared by Board, and prior and in preference to any declaration or payment of other dividends; dividends are not cumulative. For any other dividends or similar distributions, Preferred Stock participates with Common Stock on an as-converted basis.
- Liquidation Preference:** In the event of a liquidation, dissolution or winding-up, the proceeds shall be distributed to the stockholders as follows:
- First pay 1x the original purchase price plus declared but unpaid dividends on each share of Series B Preferred Stock (the "Series B Liquidation Preference"). Upon full payment of the forgoing amounts, then pay 1x the original purchase price plus declared but unpaid dividends on each share of Series A Preferred Stock. Any remaining proceeds shall be paid to the holders of Common Stock.
- A sale of all or substantially all of the assets of the Company, a merger, reorganization or other transaction in which 50% of the outstanding voting power of the Company is transferred and an exclusive, irrevocable licensing of all or substantially all of the Company's intellectual property to a third party will be treated as a liquidation event (each a "Liquidation Event"), thereby triggering the liquidation payment. The holders of a majority of the Series A Preferred Stock and Series B Preferred Stock (collectively, the "Preferred Stock"), voting together as a single class, and which shall include the holders of a majority of the Series B Preferred Stock (the "Requisite Majority") may waive the treatment of such a transaction as a liquidation event.
- Redemption:** Series B Preferred Stock shall be redeemable at the election of holders of a majority of the outstanding Series B Preferred Stock on or after five years in three equal, annual installments, or as soon thereafter as legally permissible, at a price equal to the original purchase price plus declared, but unpaid dividends. To the extent that the Company's financial position does not permit such redemption under applicable corporate laws, any shares required to be redeemed shall be redeemed at such time as the Company is legally able to do so. Holders of unredeemed shares of Series B Preferred Stock shall have all rights previously available to holders of such stock.
- Conversion:** Each share of Series B Preferred Stock shall initially be convertible into one share of Common Stock (subject to antidilution adjustment as described below) at any time at the holder's option
- Automatic Conversion:** The Preferred Stock automatically converts into Common Stock upon the earlier of (i) the election of the Requisite Majority or (ii) the

consummation of an underwritten public offering with a price per share of 4x the original issue price for the Series B Preferred Stock, and aggregate gross proceeds in excess of \$30,000,000 (a "Qualified Public Offering").

Price-Based Antidilution Adjustments

Conversion ratio for Series B Preferred Stock shall be adjusted on a broad-based weighted average basis in the event of an issuance below the Series B Preferred Stock price, as adjusted.

No adjustment shall be made for (i) the sale of shares of Common Stock reserved for employees and other service providers, approved by the Board, (ii) Common Stock issued pursuant to a stock split or similar reorganization, (iii) Common Stock issued upon conversion of Preferred Stock, (iv) securities issued in connection with a bona fide business acquisition by the Company, approved by the Board, or an initial public offering, (v) securities issued to persons or entities with which the Company has business relationships, which issuances are approved by the Board, and for primarily non-equity financing purposes, (vi) securities issued or issuable pursuant to equipment lease financings or bank credit arrangements that are approved by the Board, and for primarily non-equity financing purposes.

Other Antidilution Adjustments:

Proportional adjustments for stock splits and stock dividends and similar events.

Voting Rights:

Votes on an as-converted basis, but also has class and series vote as provided by law. In addition, approval of the Requisite Majority required on (i) the creation or authorization of any senior or pari passu security, (ii) payment of dividends on any class of stock, (iii) redemptions or repurchases of Common Stock or Preferred Stock, except for purchases at cost upon termination of service or the exercise by the Company of contractual rights of first refusal over such shares, (iv) consummation of any Liquidation Event, (v) any increase or decrease in the number of authorized shares of Series B Preferred Stock or Common Stock, (vi) creation or authorization of any indebtedness in excess of \$250,000 unless approved by the Board, including the Series B Director, (vii) creation of any subsidiary that is not a wholly-owned subsidiary or disposition of any subsidiary stock or all or substantially of any subsidiary assets, (viii) any amendment of the Certificate of Incorporation or Bylaws and (ix) any increase or decrease in the size of the Board.

*Terms of Preferred Stock Purchase Agreement*

Representations and Warranties:

Standard representations and warranties by the Company.

Conditions to Closing:

(a) Standard conditions to Closing, which shall include, among other things, satisfactory completion of financial and legal due diligence by the

Investors.

(b) Investors shall have received a customary opinion of counsel for the Company.

(c) All current and former employees and consultants shall have entered into the Company's standard form proprietary information and inventions agreement in form and substance acceptable to the Investors.

(d) Board composition at Closing shall be as described under "Board of Directors" below.

(e) The Company shall have entered into indemnification agreements with the Series B Director (and affiliated funds) in a form acceptable to such director.

(f) The Company shall have obtained D&O insurance in an amount and upon terms acceptable to the Investors.

(g) Any other closing conditions: key man insurance, execution of material contracts, etc.

Expenses:

Counsel to the Investors will draft documents. The Company shall pay, at the closing, reasonable fees and expenses of Investors' counsel, not to exceed \$30,000. The financing documents shall be based on the model NVCA form agreements.

#### *Terms of Investor Rights Agreement*

Registration Rights:

(a) Demand Rights. Beginning on the earlier of five years from the Closing or six (6) months following the Company's IPO, two demand registrations for underwritten public offerings upon initiation by holders of at least 50% of outstanding Preferred Stock (or Common Stock issuable upon conversion of the Preferred Stock or any combination thereof) for aggregate proceeds in excess of \$15,000,000. Expenses paid by Company, including expenses of one counsel for the selling stockholders (not to exceed \$35,000).

(b) Piggyback Rights. Investors in Preferred Stock will have unlimited piggyback registration rights, subject to pro rata cutback at the underwriter's discretion. Full cutback upon the IPO; 30% minimum inclusion thereafter. Investors will not be subject to cutback unless all other selling stockholders are excluded from registration. Expenses paid by Company, including expenses of one counsel for the selling stockholders (not to exceed \$15,000).

(c) S-3 Rights. Unlimited S-3 Registrations of at least \$3,000,000, each upon initiation by holders of 10% of the outstanding Preferred Stock.

Registration rights terminate (i) five years after the Qualified Public Offering; or (ii) as to any holders of less than one percent (1%) of the

outstanding shares, when such shares held can be sold in any 90-day period under Rule 144, whichever occurs first.

No future registration rights may be granted without consent of the Requisite Majority, unless subordinate to the Investors' rights.

**Market Stand-Off:**

Prior to the Closing, all stockholders of the Company and the Investors shall agree not to sell or otherwise transfer an interest in any shares of Preferred Stock or Common Stock owned or controlled by them immediately prior to the closing of the IPO for a period of up to 180 days (subject to extension to comply with Section 2711 of the FINRA rules) following the IPO (provided directors and officers of the Company and 1% stockholders agree to the same lock-up); such agreement shall provide that any discretionary releases from the lock-up be allocated to holders of registrable securities on a pro-rata basis. Such stockholders shall also agree to sign the underwriter's standard lock-up agreement reflecting the foregoing.

**Right of First Offer:**

The Investors holding at least 10% of the shares of Series B Preferred Stock shall have a pro rata right, but not an obligation, based on their percentage equity ownership of Common Stock, assuming full conversion and exercise of all outstanding convertible and exercisable securities, to participate in subsequent financings of the Company, other than (i) the issuance or sale of shares of Common Stock (or options therefor) to employees and similar service providers pursuant to plans approved by the Board, (ii) the issuance of securities pursuant to a bona fide, firmly underwritten public offering, (iii) the issuance of securities pursuant to the conversion or exercise of convertible or exercisable securities, (iv) the issuance of securities in connection with a bona fide business acquisition of or by the Company, in each case as approved by the Board, (v) the issuance and sale of Series B Preferred Stock pursuant to the Series B Stock Purchase Agreement (vi) the issuance of stock, warrants or other securities or rights to persons or entities with which the Company has business relationships approved by the Board, provided such issuances are for other than primarily equity financing purposes or (vii) the issuance of securities that, with unanimous approval of the Company's Board of Directors, are not offered to any existing stockholder of the Company. Any shares not subscribed for by an Investor may be reallocated pro rata among the other eligible Investors. Such right shall not apply to any public offering and will terminate immediately prior to a Qualified Public Offering.

**Financial Information:**

The Investors holding at least 10% shares of Preferred Stock shall receive standard information rights including audited financial reports within 120 days after the end of the fiscal year, quarterly unaudited financial reports within 45 days after the end of each of the first three quarters, monthly unaudited financial reports within 30 days after the end of the month and annual budget and business plan prior to the beginning of a fiscal year, as well as standard inspection rights. Audited financial reports shall be prepared by an accounting firm of national standing.

Key Person Insurance: Within 60 days of the Closing, the Company shall obtain a key person life insurance policy on the Founders in the amount that is reasonably acceptable to Canaan Partners.

Management Rights Letter: The Investor shall receive a standard management rights letter providing for the consultation with management on significant issues, access to the books, records and facilities of the Company, and board visitation rights.

#### **Board of Directors Matters**

Board of Directors:

The Board shall be composed of 5 members, comprised of the following: (i) two representatives appointed by the majority of the holders of Common Stock (the "Founder Designees"); provided that Common Designees shall be designated by the Founders (one by each Founder), so long as such Founder owns (directly or indirectly) more than seventy percent (70%) of the shares of Common Stock held by such Founder as of the date of the Closing; (ii) one independent board member designated by one or both of the Founders, so long as such Founder owns (directly or indirectly) more than seventy percent (70%) of the shares of Common Stock held by such Founder as of the date of the Closing, with the approval of the Board and holders of a majority of the Series B Preferred Stock; (iv) one representative to be appointed by the holders of a majority of Series B Preferred Stock, who shall be a designee of Canaan (the "Series B Director"), initially to be Warren Lee and (v) one representative to be appointed by the holders of a majority of Series A Preferred Stock (the "Series A Director"). Notwithstanding the foregoing, (i) in the event that one of the Founder Designees is no longer serving as the Company's CEO, then the Board shall be expanded to 7 members and the Company's then-CEO shall be elected to one such additional seat and the holders of a majority of the Series B Preferred Stock shall be entitled to designate the director to hold the other newly created seat and (ii) in the event that a Founder is terminated "for cause," the right of such Founder to designate a Founder Designee shall lapse and such Founder Designee shall be designated by the holders of a majority of the Common Stock. "cause" shall mean (i) conviction of any felony or any crime involving moral turpitude or dishonesty; (ii) participation in a fraud or act of dishonesty that results in or reasonably likely to harm the Company; or (iii) any material breach of the terms of any material contract with, or policy of, the Company that has not been cured within thirty (30) days after written notice from the Company's Board of Directors of such breach, if such breach is reasonably subject to cure, or (iv) repeated and material failure to follow the directives of the Board of Directors or to perform job duties, where the Founder has been notified of the failure and such failure has not been cured within thirty (30) days after written notice from the Company's Board of Directors.

Directors and Officers  
Liability Insurance:

Within 60 days of the Closing, the Company shall obtain a directors and officers liability insurance policy in the amount and with terms acceptable to the Investors.

### Other Matters

Employee Common Stock Vesting:

Unless otherwise approved by the Board, employee Common Stock shall vest as follows: after 12 months of employment, 25% will vest; the remainder will vest monthly over the following 36 months. The Company shall have a repurchase option on unvested shares at cost.

Restrictions on Common Stock:

(a) No transfers allowed prior to vesting except for certain estate planning.

(b) Company right of first refusal on vested shares until initial public offering.

(c) No transfers or sales permitted during lock-up period of up to 180 days as required by underwriters in connection with stock offerings by the Company.

(d) The number of authorized shares of Common Stock may be increased or decreased upon the approval of the holders of a majority of the outstanding shares of the Company's capital stock, regardless of Section 242 of the DGCL.

Right of First Refusal and Co-Sale Right:

Until the Qualified Public Offering, each Investor holding at least 10% of the shares of Preferred Stock shall have the right to participate on a pro rata basis in transfers of any stock held by the Founders; and a right of first refusal on such transfers, subordinate to the Company's right of first refusal. Any shares not subscribed for by an Investor may be reallocated pro rata among the other eligible Investors. The right of first refusal and co-sale shall not apply, in the case of an individual, to (a) transfers to any spouse or member of Founder's immediate family, or to other estate planning transfers, (b) any sale to the public pursuant to an effective registration.

Drag-Along Right:

In the event of a sale of the Company by way of a merger, recapitalization, sale of all or substantially all of the Company's stock or assets or otherwise (a "Proposed Sale"), which is approved by (i) the Board, (ii) the majority of the holders of Common Stock, which shall include each Founder who owns (directly or indirectly) more than seventy percent (70%) of the shares of Common Stock held by such Founder as of the date of the Closing, and (iii) the Requisite Majority, all remaining stockholders of the Company shall be required to vote for, consent to, transfer their shares of capital stock pursuant to, and take such other action as may be required to consummate, such sale. Notwithstanding the foregoing, in the event that a Founder is terminated "for cause," the approval of such Founder shall no longer be required in connection with a Proposed Sale under subparagraph (ii) above..

Capitalization

All Class B Common Stock will be converted to Class A Common Stock in conjunction with the financing to eliminate any "super voting" rights

and to provide that each share of Class A Common stock will be entitled to only one vote per share.

Existing Investor Documents

The terms and conditions contained in this term sheet are subject to Canaan's review of the Company's existing organizational documents and agreements with the holders of the existing Preferred Stock and the terms and conditions set forth therein.

Publicity:

Except as required by law, the Company will not discuss the terms of this Term Sheet with any person other than key officers, members of the Board of the Company or the Company's accountants or attorneys without the written consent of Investor. In addition, the Company shall not use an Investor's name in any manner, context or format (including reference on or links to websites, press releases, etc.) without the prior approval of such Investor.

No Shop:

From the signing date hereof until the earlier of (i) 12:00 P.M. EST Time on February 4, 2012, (ii) the Closing or (iii) written notification by Canaan Venture Partners that it does not intend to proceed with the financing, the Company agrees that it shall not solicit, encourage others to solicit, encourage or accept any offers for the purchase or acquisition of any capital stock of the Company, of all or any substantial part of the assets of the Company, or proposals for any merger or consolidation involving the Company, and it shall not negotiate with or enter into any agreement or understanding with any other person with respect to any such transaction, provided that this No-Shop provision shall not apply to the Company seeking "Others" (as contemplated above) to purchase the balance of the Series B Preferred Stock on the terms contemplated hereby.

Interested Parties

Company:

Catherine Levene & Chris Vroom  
Artspace Marketplace, Inc.  
915 Broadway, Suite 602  
New York, New York 10010

Pho

Fax

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Investors:

Warren Lee  
Canaan Partners  
285 Riverside Ave, Suite 250  
Westport, CT 06880  
Phone: [REDACTED]  
e-mail: [wlee@\[REDACTED\]](mailto:wlee@[REDACTED])

Except as set forth below, this term sheet is non-binding and is intended solely as a summary of the terms that are currently proposed by the parties. The parties acknowledge that they neither intend to enter, nor have they entered into, any agreement to negotiate a definitive agreement pursuant to this term sheet, and either party may, at any time prior to execution of such definitive agreement, propose different terms from those summarized herein or unilaterally terminate all negotiations pursuant to this term sheet without any liability whatsoever to the other party. Each party shall be solely liable for all of its own fees, costs and other expenses in conjunction with negotiation and preparation of a final agreement pursuant to this term sheet.

The parties hereto understand and acknowledge that only the provisions set forth in the "Publicity" and "No Shop" paragraphs above shall be binding upon the parties hereto.

If the terms of this memorandum are acceptable to the Company, please so indicate on the enclosed copy of this memorandum and return it to the undersigned no later than 12:00 [redacted] on Dec 21, 2012.

Artspace Marketplace, Inc.

By: [redacted] \_\_\_\_\_

Name: Catherine Levene

Date: 12/21/12

WARREN LEE

CANAAN PARTNER.

By: [redacted] \_\_\_\_\_

Name: Warren Lee

Date: 12/21/12