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**MEMORANDUM OF TERMS**

### SERIES A PREFERRED STOCK FINANCING

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***February 5, 2019***

The following summarizes the principal terms of a proposed Series A Preferred Stock offering (the “Financing”) of Tarheel Technologies, Inc., a North Carolina corporation (the “Company”). This Term Sheet is qualified in its entirety by the actual terms of the investment documents for this Financing. This Term Sheet will not be binding upon either party hereto but instead sets forth a summary of the terms to be contained in any such investment documents executed by the parties hereto; provided, however, that the sections below entitled “Fees,” “Standstill” and “Confidentiality” will be an ongoing binding agreement upon the parties hereto regardless of the execution of such investment documents. In the event of any conflict or inconsistency between this Term Sheet and the investment documents, the terms of the investment documents will govern.

**A. Investors and Amounts: Leaky Little Ventures** $2,000,000

Other Investors $2,000,000

**B. Security:** Series A Preferred Stock (“Series A”)

#### **C. Pre-Money Valuation:** $5,000,000 prior to new money invested in the Company. The number of shares and price per share is based on this value on a fully diluted basis, including 22.5% of the post capitalization shares allocated to an option pool.

**D. Closing:** The First Closing of the Series A ($2,000,000 of the $4,000,000) is estimated to occur on or around February 28, 2019 or at such other time as the Company and Investors shall mutually agree. The second closing of the Series A ($2,000,000) is estimated to occur on or around September 30, 2019, contingent upon milestones to be agreed upon by the company and Investors.

**E. Capitalization:** The pre and post financing capitalization is set forth in the attached Exhibit A. Prior to closing, the existing angel investors will be combined into a single voting trust. The entire (22.5%) option pool will be established at the First Closing assuming that the Second Closing will occur as contemplated. No other equity or debt securities, including without limitation options, warrants or similar rights, will be outstanding at the First Closing. For clarity, any outstanding convertible notes shall be converted prior to closing.

Rights, Preferences, Privileges and Restrictions of Series A Preferred Stock

**F. Dividends:** Cumulative dividends of 8% shall accrue on each outstanding share of Series A from the date such share is issued, and shall be payable when and as declared, upon liquidation or dissolution and upon redemption or conversion. At the option of the holder, accrued dividends on Series A may be converted into shares of Common on the same terms as the shares of Series A as provided below. Cumulative dividend rate shall increase to 12% upon default in redemption of Series A Preferred Stock. A consolidation or merger or sale of all or substantially all of the assets of the Company shall be deemed to be a liquidation or winding up for purposes of the liquidation preference. No dividends shall be payable on Common without payment of dividends on Series A equal to what would be paid to Series A if it were converted to Common Stock.

**G. Liquidation Preference:** In the event of any liquidation or winding up of the Company, the holders of Series A shall be entitled to receive in preference to the holders of Common an amount equal to the original purchase price per share plus all dividends accrued or declared thereon but unpaid (the “**Liquidation Preference**”). Thereafter, the holders of all outstanding Series A Preferred Stock and Common shall be entitled to receive all remaining assets of the Company on an as-converted into common stock pro-rata basis. A consolidation or merger or sale of all or substantially all of the assets of the Company shall be deemed to be a liquidation or winding up for purposes of the liquidation preference.

**H. Conversion:** Each share of Series A (including any accrued and unpaid dividends) may be converted at the holder's option at any time into one share of Common, subject to adjustment as provided below (see “Anti-dilution Provisions”)

**I. Automatic Conversion:** All outstanding shares of Series A will be automatically converted into Common at the then applicable conversion rate upon (i) the election of a majorityof the then-outstanding Series A or (ii) the closing of an underwritten public offering of more than $30,000,000 of Company stock with a per share price in such offering not less than ten timesthe original Series A per share purchase price (a “Qualified IPO”).

# **J. Anti-dilution Provisions:** The applicable conversion price of the Series A shall be subject to full ratchet adjustment to prevent dilution in the event that the Company issues additional equity securities (including convertible debt, options or warrants for equity) at a per share purchase price less than the applicable conversion price of the Series A (this excludes (i) the issuance of options or shares to employees, directors, and consultants, up to the number of options specified in the pre-money shares of this financing (22.5% of the post money fully diluted shares) and as approved by the Board of Directors, (ii) the sale of shares in connection with a Qualified IPO, (iii) the issuance of common shares upon conversion of the Series A or other already outstanding convertible securities, (iv) dividends or distributions on Series A, (v) the issuance of warrants to banks or equipment lessors, as approved by the Board of Directors, or (vi) the issuance of shares in connection with business combinations or corporate partnering agreements, as approved by the Board of Directors).

The conversion price of the Series A will also be adjusted to reflect any stock split, stock dividend or similar recapitalization.

**K. Voting Rights:** Except as required by law, the holders of Series A will be entitled to vote on an as-converted basis on all matters in which the holders of Common are entitled to vote, including the election of directors. In addition, the holders of Series A shall have certain special voting rights (see “Protective Provisions”).

**L. Redemption:** Commencing four years after the original date of issuance of the Series A, upon the election of a majorityofthe Investors, the Company shall redeem the Series A in three equal annual amounts. The redemption price per share shall be the greater of the Liquidation Preference or fair market value. If the Company has insufficient funds to fully pay the redemption, then available funds will be applied on a pro rata basis to redeem the outstanding shares of Series A. Subsequently, additional funds received by the Company will first be applied to redeeming the remainder of the outstanding shares of Series A on a pro rata basis.

**M. Protective Provisions:** In addition to class or series voting rights provided by Delaware law, as long as 1,000,000 shares of Series A are outstanding, without the approval of the holders of at least a majority of Series A, except as otherwise required by applicable law, the Company will not take any action that:

(i) effects the sale, lease, license or other disposition of all or substantially all of the Company's assets, or which results in the holders of the Company's capital stock prior to the transaction owning less than 50% of the voting power of the Company's capital stock after the transaction.

(ii) authorizes any merger, consolidation or share exchange between the Company and another entity.

(iii) redeems, purchases or otherwise acquires for value any shares of Common or any series of preferred stock (other than employee, director or consultant shares repurchased at cost pursuant to a restricted stock purchase agreement as approved by the Board of Directors, or as otherwise specifically provided for herein).

(iv) authorizes any shares of capital stock superior to or on parity with the Series A as to dividends, liquidation, redemption, conversion, registration rights, voting or assets, and any securities exchangeable, convertible or exercisable for such stock.

(v) alters or changes any of the powers, preferences, privileges or rights of the Series A or increases or decreases the total number of authorized shares of the Series A.

(vi) reclassifies any Common into shares having preferences superior to or on parity with the Series A as to dividends, liquidation, redemption, conversion, registration rights, voting or assets.

(vii) amends, repeals or adds to any provision of the Company’s certificate of incorporation or bylaws that adversely affects the holders of Series A.

(viii) authorizes the voluntary or involuntary liquidation, dissolution or winding up of the Company or its business.

(ix) authorizes any public offering other than a Qualified IPO.

**N. Registration Rights:** Company Registration: The Investors shall be entitled to unlimited “piggyback” registration rights with respect to any offering of shares of the Company or other shareholders, subject to the right of the Company and its underwriters, in view of market conditions, to reduce (but to no less than 25% of any offering after the IPO) the number of shares proposed to be registered pro rata among Investors and other holders.

Demand Rights: The Investors will be granted three standard demand registration rights based upon the request of a majority of the holders of the Company’s Series A beginning upon the earlier of (i) 3 years from the Closing of the Financing or (ii) 6 months after an IPO.

S-3 Rights: Holders of at least 20% or more of the Series A (or Common issued upon conversion of the Series A or a combination of such Common and Series A) together with all other holders of such registration rights shall be entitled to unlimited demand registrations on Form S-3 (if available to the Company and not more than once every twelve months) with respect to Common issued upon conversion of Series A, provided that the gross proceeds of each registered offering are not less than $1,000,000.

Expenses: The Company shall bear registration expenses (exclusive of underwriting discounts and commissions) of all such demand, piggy-back and S-3 registrations, including the expense of one counsel for the selling shareholders.

Transfer of Rights: Provided the Company is given written notice thereof, the registration rights may be transferred to (i) any principal, officer, or retired principal or officer of Investor, or (ii) any transferee of at least 30% of an Investor’s shares (other than a competitor of the Company), in each case as long as the transferee agrees to be bound by the provisions of the definitive documents.

Standoff Provision: If requested by the Company or the underwriters in connection with the Company’s first public offering, Investor shall refrain from selling shares of Common for the period of time (not to exceed 180 days) requested by the Company or the underwriters, provided that directors and executive officers of the Company are similarly bound.

Termination of Rights: The registration rights shall terminate with respect to each Investor at the earlier of such time as (i) five years after a Qualified IPO or (ii) the Investor is entitled to sell all of its shares in any 90-day period pursuant to SEC Rule 144.

Additional Registration Provisions: The Company will not grant registration rights superior or equal to any other current or future shareholder without the consent of a majorityof the cross indemnification, the period of time in which the registration holders of Series A.Additional provisions will be contained in the Rights Agreement with respect to registration rights, including statement will be kept effective, underwriting arrangements and other customary provisions.

O. Right of First Refusal

**and Co-Sale Agreement:** Each founder shall grant the Company and the Investors, in that order, rights of first refusal with respect to any proposed sale or transfer of shares. Each Investor shall have a right of co-sale to participate in any such sale or transfer in proportion to each Investor’s fully-diluted percentage ownership, to the extent that such rights of first refusal are not exercised. Co-sale rights shall not apply to estate planning transfers, transfers to family members, gifts or sales of no more than 10,000 shares per person. Rights of first refusal and co-sale rights shall terminate upon a Qualified IPO.

**P. Preemptive Rights:** The holders of the Series A shall also be given a right of first refusal to purchase stock or other equity securities offered by the Company. These rights will terminate upon a Qualified IPO.

**Q. Unlocking Provision** At any time after two years following the First Closing, if Investors holding two-thirds of the outstanding shares of Series A approve of a merger, share exchange or the sale of all or substantially all of the stock or assets of the Company, the Company and the Company’s stockholders will agree (i) to sell their shares, or to vote in favor of a merger or share exchange, or (ii) to redeem all of the Series A for the consideration which the Investors would have received in such transaction.

**R. Founders’ Shares:** The Founders’ shares of Common Stock will vest on a monthly basis ratably over 48 months.

In the event of a merger, sale or liquidation of the Company, 50% of the unvested Founder’s shares will vest if such founder is terminated without cause within a 12-month period following the closing of such transaction.

**S. Purchase Agreement:** The Series A will be sold pursuant to a form of Stock Purchase Agreement containing customary representations, warranties and agreements of the Company and the management stockholders, and affirmative and negative covenants of the Company customary for similar transactions. Legal documentation for the Series A financing will include employment agreements for all executives and director of the Company. The closing of the Series A will be subject to satisfactory completion of due diligence, an appropriate legal opinion of counsel to the Company and other customary closing conditions.

**T. Board of Directors:** The Board of Directors of the Company shall consist of five persons, which shall include (i) the CEO as representative of the holders of Common, (ii) one representative of Leaky Little (iii) one additional representative from Series A and (iv) two mutually agreed upon independent directors. In the event of a default in the redemption of the Series A, the Board of Directors of the Company shall consist of (i) one representative of Leaky Little, (ii) three additional representatives of the holders of Series A and (iii) one representative of the holders of Common. The reasonable out-of-pocket expenses associated with attending meetings will be borne by the Company. At least one director selected by the holders of the Series A will serve on each committee of the Board of Directors. In addition, each Series A stockholder holding a minimum of 1,000,000 shares of Series A shall have the right to appoint one observer to attend each board meeting. The bylaws of the Company will provide that any one director or holders of at least 10% of Common on an as-converted basis can call a meeting of the Board of Directors.

**U. Director Indemnification**

**And D&O Insurance:** The Company’s Certificate of Incorporation shall provide for indemnification of the Company’s officers and directors to the broadest extent permitted by applicable law. The Company will obtain and maintain in full force and effect D&O insurance with terms and conditions (including coverage limits) reasonably acceptable to the Investors. The Company will also enter into agreements with each of the members of the Board of Directors providing for indemnification of such directors, which agreements shall be in form and content reasonably satisfactory to the Series A Directors and their director designees.

**V. Conditions of Closing:** The following conditions shall be required for closing of this financing:

* Roy Williams, as CEO and founder shall be elected to the Board of Directors
* Roy William’s sister and brother shall resign from the Board of Directors
* A representative of Leaky Little shall be elected to the Board of Directors
* Syndication partners will be brought into the Series A round of financing for a total of $2,000,000 (in addition to the conversion of outstanding notes) for a total of $4 million in new capital.
* Satisfactory legal review of employment agreements
* Leaky Little will have the right to approve any press release pertaining to the Company’s financing, management, or scientific discoveries until March 30, 2019.

**W. Fees:** Upon Closing, the Company will bear all legal and other expenses with respect to the negotiation and closing of the Stock Purchase Agreement, including reasonable fees and expenses of counsel to the Investors and related due diligence expenses incurred by the Investors. All transaction documents relating to the issuance of the Series A shall be prepared by Leaky Little’s counsel. Investors’ counsel fees will not exceed $40,000.

**X. Standstill:** Upon acceptance of this term sheet, the Investors will commit substantial resources to a due diligence review of the Company and preparation of legal documents relating to this transaction. The Company agrees that, during the period between acceptance of this term sheet and the closing date proposed above, it will not enter into or continue any discussions with any third party, other than already committed investors to the Series A financing, either agent or principal, concerning a possible investment, initial public offering, merger, acquisition or other business combination.

**Y. Confidentiality:** The parties hereto (including their directors, partners, officers, employees and agents) agree to retain in confidence all information contained in this Term Sheet and any information transmitted between the parties pursuant to it, and further agree that they will not use for their own benefit and will not use or disclose to any third party, or permit the use or disclosure to any third party of, any information obtained from or revealed by the other.

**Effective Date:** This term sheet will remain open until 5:00pm Eastern time on February 8, 2019.

*(Signature page follows)*

Leaky Little, L.P. II, LP

By: LL Associates, II, LLC

its General Partner

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name: Leaky Black

Title: General Partner

Tarheel Technologies, Inc.

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name: Roy Williams

Title: CEO