

**June 14, 2015 Confidential Term Sheet for the Offering of Convertible Notes and Warrants**

This Confidential Term Sheet provides a brief summary of the securities being offered (the “Offering”) by FracTEL LLC, a Florida limited liability company (the “Company”). The Company has recently engaged Great Point Capital LLC (the “Selling Agent”) to undertake to place up to $3,000,000 of the Company’s convertible notes. This term sheet is for discussion purposes only and is not binding on Company or the Investors (as defined below), nor is Company or any of the Investors obligated to consummate the convertible promissory note financing until a definitive convertible note purchase agreement has been agreed to and executed by Company and the Investors.

|  |  |
| --- | --- |
| **Current****Offering:** | The Company is seeking subscriptions for up to $3,000,000 in aggregate principal amount of convertible promissory notes (each a “Note” and collectively the “Notes”) for which the subscriber will also receive a warrant for the purchase of Membership Units of the Company (each a “Warrant” and collectively the “Warrants”).  |
| **Closings; Initial Closing** | The Company may close the sale of the Notes in one or more closings (each a “Closing”) with one or more purchasers of the Notes acceptable to the Company (the “Investors”). The initial closing (the “Initial Closing”), and each subsequent Closing, shall not occur until the Company receives acceptable subscriptions for Notes with aggregate principal amounts of at least $500,000. The Company may waive the $500,000 minimum for any Closing other than the Initial Closing in its sole discretion. The Offering will conclude on the earlier of the date that is six (6) months after the Initial Closing or when the Offering is fully subscribed. |
| **Notes:** | The Notes will be issued and sold pursuant to a convertible note purchase agreement prepared by the Company’s legal counsel and will contain customary representations and warranties of the Company and the Investors (the “Note Purchase Agreement”). Notes will be for a minimum principal amount of $100,000 per Investor unless waived by the Selling Agent and at least $25,000 unless waived by the Company in its sole discretion. |
| **Maturity Date:** | All principal and any unpaid accrued interest on the Notes will be due and payable 24 months from the date of issuance of such Note (the Maturity Date”), unless extended by the Company to 36 or to 48 months. |
| **Interest:** | Simple interest will accrue and is obligated to be paid by the Company on a quarterly basis at the rate of 10% per annum for the first 24 months and, if applicable, 12% per annum for months 25-36, and 15% per annum for months 37-48. |
| **Conversion to Equity:** | If the Company issues equity securities (“Equity Securities”) for purposes of raising capital (an “Equity Financing”) during the term of Notes, then Investors may convert the unpaid balance of the Notes, and any accrued but unpaid interest thereon, or any portion thereof, into the Equity Securities at a conversion price equal to 75% of the per unit price paid by the purchasers of such equity securities in the Equity Financing. The Company will provide the Investors with at least 30 day’s notice of the closing and material terms of the Equity Financing. Any election to convert the Notes will be made by the Investors in writing and delivered to the Company at least five days prior to the closing of the Equity Financing.If the Company does not conduct an Equity Financing during the term of the Notes or by the time of any given prepayment, then, effective upon the Maturity Date (or upon the prepayment date, as the case may be), the Investors may elect to convert their Note (or the amount of the prepayment, as the case may be) into Membership Units of the Company at a conversion price based on a pre-money valuation of $10,000,000 (assuming full conversion or exercise of all convertible and exercisable securities then outstanding other than the Notes). Any election to convert the Note pursuant to this paragraph will be made in writing and delivered to the Company at least five days prior to the Maturity Date or the prepayment date.  |
| **Security Interest:** | The Notes will be a securedobligation of the Company, subordinated only to liens currently encumbering the Company’s assets relating to a SBA guaranteed loan in the original principal amount of $150,000. |
| **Lock-Box Account:** | A Lock-Box Account as described in this section will secure the Notes. Upon each Closing, 10% of the funds actually received by the Company will be placed into an escrow account (the “Lock-Box Account”) for payment of interest during the first year of the Notes. For each respective Closing, beginning in month 11 and continuing through the repayment of the Note, the Lock-Box Account will be funded with applicable interest by the Company from revenues generated and, beginning one month prior to the beginning of principal repayments, the Lock-Box will be funded with applicable principal payments by the Company from revenues generated.  Structural mechanics and terms of the Lock Box Account are to be mutually agreed upon between Company and Selling Agent.  |
| **Sale of the Company:** | In the event that the Company or all or substantially all of its assets are sold (a “Company Sale”) prior to repayment in full of the Notes, the Maturity Date for the Notes will be accelerated to the closing date of such Company Sale. Additionally, Investors will retain the option to convert a Note to equity of the Company at a conversion price equal to 75% of the of the per unit value of the Company based on the value set through the Company Sale. The Company will provide the Investors with at least 30 day’s notice of the closing and material terms of the Company Sale. Any election to convert the Notes will be made by the Investors in writing and delivered to the Company at least five days prior to the closing of the Company Sale. |
| **Prepayment:** | The Notes may be prepaid by the Company at any time provided that a prepayment penalty of 5% will apply to any prepayment prior to the 24th month after issuance of such Note other than in connection with a Company Sale. The Company will provide at least fifteen day’s notice of any prepayment. |
| **Amendment:** | The Note Purchase Agreement may be amended, or any term thereof waived, upon the written consent of the Company and the Requisite Holders. Any Note may be amended, or any term thereof waived, upon the written consent of the Company and the holder of such Note. |
| **Warrants:** | In addition to a Note, an Investor shall be issued a Warrant which will permit the subscriber to purchase an amount of Equity Securities of the Company equal to 12% of the initial principal amount of such Investor’s Note (i.e. an Investor purchasing a $100,000 Note will receive a Warrant allowing the purchase of up to $12,000 in Equity Securities) in any Equity Financing during the term of the Warrant. The exercise price of the Warrant will be equal to the lesser of: (i) 75% of the per unit price paid by the purchasers of such equity securities in the first Equity Financing following the issuance of the Notes; or (ii) the price calculated based on a pre-money valuation of $10,000,000 (assuming full conversion or exercise of all convertible and exercisable securities then outstanding other than the Notes). The term of the Warrant shall be five (5) years.  |
| **Escrow:** | Note purchase amounts associated with subscriptions are to be deposited into a proceeds escrow account with Seacoast National Bank. As soon as acceptable subscriptions for the Notes have been received for any Closing, funds held in escrow shall be immediately distributed to the Company.  |
| **Restricted****Securities:** | The Notes, the Warrants and the membership interests issuable upon conversion of the Notes or exercise of the Warrants are offered and issued under claimed exemptions from the registration requirements of the Securities Act of 1933 to subscribers who are “accredited investors,” as such term is defined in regulations under such Act, and applicable state laws regulating the offer and sale of securities. As such, they are “restricted securities” and may not be resold without an effective registration or the qualification of the resale for an exemption from such registration requirements.  |
| **Expenses:** | Each Investor will bear its own fees and expenses incurred in the transactions contemplated by this term sheet. |
| **Confidentiality:** | Each prospective Investor agrees to keep the terms of the Offering and this Term Sheet confidential. |
| **Additional****Information:** | This Confidential Term Sheet is a summary of the offering of the Note and the Warrants. Prospective investors may wish to visit the Company’s website ([www.fractel.net](http://www.fractel.net)). |