

VENTURE DEBT TERM SHEET ANALYSIS

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FOR DISCUSSION PURPOSES ONLY

1. EXECUTIVE SUMMARY

This analysis evaluates the proposed venture debt term sheet dated January 5, 2024, from Silicon Valley Bank (SVB) to Polar Dynamics Robotics, Inc. (the "Company"). The proposed facility consists of a \$15,000,000 senior secured term loan with warrants.

2. KEY TERMS ANALYSIS

2.1 Loan Structure

- Principal Amount: \$15,000,000
- Term: 48 months
- Interest Rate: Prime + 3.25% (floating)
- Interest Only Period: 12 months
- Payment Structure: Interest only followed by 36 months of principal and interest

2.2 Warrant Coverage

- Coverage: 3% of facility amount
- Strike Price: Series C price (\$12.45/share)
- Term: 10 years
- Type: Standard Series C preferred stock warrants
- Anti-dilution: Broad-based weighted average

3. SECURITY AND COLLATERAL

3.1 Primary Security

- First priority security interest in all assets
- Excludes intellectual property (negative pledge only)
- Includes proceeds of IP licensing and sales

3.2 Carve-Outs

- Permitted equipment financing up to \$2,000,000
- Standard permitted liens
- Operating leases in ordinary course

4. FINANCIAL COVENANTS

4.1 Required Covenants

- Minimum liquidity: Greater of \$10,000,000 or 6 months operating burn
- Minimum recurring revenue: 75% of board-approved plan
- Maximum net burn rate: \$1,000,000 per month

4.2 Reporting Requirements

- Monthly financial statements: Within 30 days
- Annual audited financials: Within 180 days
- Board materials: Upon distribution
- Annual operating plan: Upon board approval

5. MATERIAL TERMS AND CONDITIONS

5.1 Prepayment Terms

- Prepayment premium: 2.0% in year 1, 1.5% in year 2, 1.0% in year 3
- No prepayment penalty in final year
- Minimum prepayment amount: \$1,000,000

5.2 Change of Control

- Mandatory prepayment upon change of control
- Prepayment premium applies
- Warrants accelerate and survive

6. RISK ASSESSMENT

6.1 Favorable Terms

- Market-standard interest rate
- Extended interest-only period
- Limited financial covenants

- Carve-out for equipment financing

6.2 Areas of Concern

- Broad security package
- Relatively high warrant coverage
- Tight minimum liquidity covenant
- Monthly reporting burden

7. RECOMMENDATIONS

7.1 Proposed Modifications

Negotiate reduction in warrant coverage to 2.5%

Request increased equipment financing carve-out to \$3,000,000

Seek reduction in minimum liquidity to 4 months operating burn

Extended cure periods for covenant violations

7.2 Alternative Considerations

- Explore competing term sheets from Hercules and Trinity Capital
- Consider upsized equity round instead of venture debt
- Evaluate equipment financing alternatives

8. LEGAL CONSIDERATIONS

8.1 Documentation Requirements

- Loan and Security Agreement
- Warrant Agreement
- IP Security Agreement
- Perfection Certificate
- Officer's Certificate
- Secretary's Certificate

8.2 Corporate Approvals

- Board approval required
- Series C investor consent needed

- Review of existing agreements for restrictions

9. DISCLAIMER

This analysis is provided for discussion purposes only and does not constitute legal advice. All terms are subject to change and final documentation. This analysis is confidential and protected by attorney-client privilege.

10. CERTIFICATION

Prepared by:

Legal Department

Polar Dynamics Robotics, Inc.

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