

## Offering Memorandum: Part II of Offering Document (Exhibit A to Form C)

Xairos Systems, Inc.  
9741 Sunset Hill Circle  
Lone Tree, CO 80124  
<https://www.xairos.com/>

Up to \$2,000,000.00 in Non-Voting Common Stock at \$1.00  
Minimum Target Amount: \$10,000.00

A crowdfunding investment involves risk. You should not invest any funds in this offering unless you can afford to lose your entire investment.

In making an investment decision, investors must rely on their own examination of the issuer and the terms of the offering, including the merits and risks involved. These securities have not been recommended or approved by any federal or state securities commission or regulatory authority. Furthermore, these authorities have not passed upon the accuracy or adequacy of this document.

The U.S. Securities and Exchange Commission does not pass upon the merits of any securities offered or the terms of the offering, nor does it pass upon the accuracy or completeness of any offering document or literature.

These securities are offered under an exemption from registration; however, the U.S. Securities and Exchange Commission has not made an independent determination that these securities are exempt from registration.

## Company:

**Company:** Xairos Systems, Inc.  
**Address:** 9741 Sunset Hill Circle, Lone Tree, CO 80124  
**State of Incorporation:** DE  
**Date Incorporated:** March 19, 2019

## Terms:

### Equity

**Offering Minimum:** \$10,000.00 | 10,000 shares of Non-Voting Common Stock  
**Offering Maximum:** \$2,000,000.00 | 2,000,000 shares of Non-Voting Common Stock  
**Type of Security Offered:** Non-Voting Common Stock  
**Purchase Price of Security Offered:** \$1.00  
**Minimum Investment Amount (per investor):** \$250.00

*\*Maximum Number of Shares Offered subject to adjustment for bonus shares. See Bonus info below.*

### Time-Based Perks

Ultra Super Early Bird - First 72 hours | 15% bonus shares

Super Early Bird - Next 72 hours | 10% bonus shares

Early Bird Bonus - Next 7 days | 5% bonus shares

### Volume-Based Perks

Tier 1 Perk — Invest \$1,000+ and receive 5% bonus shares

Tier 2 Perk — Invest \$5,000+ and receive 10% bonus shares

Tier 3 Perk — Invest \$10,000+ and receive 15% bonus shares + personal one-on-one telecon with the founding team

Tier 4 Perk — Invest \$25,000+ and receive 20% bonus shares + personal one-on-one telecon with the founding team

Tier 5 Perk — Invest \$50,000+ and receive 25% bonus shares + VIP tour of the Xairos testbed

Tier 6 Perk - Invest \$100,000+ and receive 50% bonus shares + VIP tour of the Xairos testbed

### Loyalty Bonus

Previous investors and Friends & Family will receive 10% bonus shares.

*\*In order to receive perks from an investment, one must submit a single investment in the same offering that meets the minimum perk requirement. Bonus shares from perks will not be granted if an investor submits multiple investments that, when combined, meet the perk requirement. All perks occur when the offering is completed.*

### The 10% StartEngine Owners' Bonus

Xairos Systems, Inc. will offer 10% additional bonus shares for all investments that are committed by investors that are eligible for the StartEngine Crowdfunding Inc.'s OWNER's bonus.

This means eligible StartEngine shareholders will receive a 10% bonus for any shares they purchase in this

offering. For example, if you buy 100 shares of Non-Voting Common Shares at \$1 / share, you will receive 110 Non-Voting Common Shares, meaning you'll own 110 shares at \$1 / share, or \$110. Fractional shares will not be distributed and share bonuses will be determined by rounding down to the nearest whole share.

This 10% Bonus is only valid during the investor's eligibility period. Investors eligible for this bonus will also have priority if they are on a waitlist to invest and the company surpasses its maximum funding goal. They will have the first opportunity to invest should room in the offering become available if prior investments are canceled or fail.

Investors will receive the highest single bonus they are eligible for among the bonuses based on amount invested and time of offering elapsed (if any). Eligible investors will also receive the Owner's Bonus and Loyalty Bonus in addition to the aforementioned bonus.

## **The Company and its Business**

### *Company Overview*

#### **Corporate Overview**

Xairos Systems, Inc. ("Xairos" or the "Company") is a C-Corp organized under the laws of the state of Delaware that is building a global timing service that is better than timing from GPS to address new markets. It leverages a proprietary quantum technology invented and patented by the Xairos founder. This technology enables position and timing that is much more accurate, secure, and resilient than GPS. This enables next-generation networks, 6G, quantum internet, self-driving vehicles, and more efficient data centers and power grids.

#### **Corporate History**

Xairos Systems, Inc. was initially organized as Speqtral Quantum Technologies, Inc, a Delaware corporation on March 19, 2019, and changed its name to Xairos Systems, Inc. on June 8, 2021.

#### **Intellectual Property**

The Company has two granted US patents. The core patent is exclusively licensed from the University of Texas Austin. The second US patent is owned directly by Xairos Systems. The company also has four international patent submissions and two US provisional patents filed.

### *Competitors and Industry*

#### **Industry**

There are four common misconceptions about GPS:

1) "GPS is about Position." Despite its name, GPS is not about position; it's about time. The majority of its \$1T+ of economic benefits is as a clock for the world.

Source: <https://www.theatlantic.com/technology/archive/2016/06/what-happens-if-gps-fails/486824/>

Source: [https://www.rti.org/sites/default/files/gps\\_finalreport.pdf](https://www.rti.org/sites/default/files/gps_finalreport.pdf)

2) "GPS is good enough." However, GPS is trivially easy to jam with accuracy topping out at 30 nanoseconds. 5G and 6G communications, data centers, quantum networks, and self-driving vehicles need better.

Source: <https://www.gps.gov/systems/gps/performance/accuracy/>

3) "GPS is free." Sure, your location app may be free (though, is it really?), but enterprise network users spend billions of dollars a year on timing units linked to GPS.

Source: <https://www.investopedia.com/articles/investing/061115/how-does-google-maps-makes-money.asp>

Source:

[https://www.gsc-europa.eu/sites/default/files/sites/all/files/Report\\_on\\_User\\_Needs\\_and\\_Requirements\\_Timing\\_Synchronisation.pdf](https://www.gsc-europa.eu/sites/default/files/sites/all/files/Report_on_User_Needs_and_Requirements_Timing_Synchronisation.pdf)

4) "GPS can't be replaced." There is already funding allocated for a GPS replacement, with calls to incentivize a commercial replacement so the military has its own dedicated system. This is the New Space paradigm - commercial systems breaking the government lock on space. This has already started for rockets, imagery, space tourism and stations, and lunar bases - now it is time for GPS.

Source: <https://www.forbes.com/sites/charlesbeames/2022/04/29/why-gps-should-embrace-privatization-to-avoid-obsolescence/?sh=4325c8af3ef8>

Source:

<https://www.nbcnews.com/science/space/space-launch-costs-growing-business-industry-rcna23488>

The PNT market is estimated to grow to \$460B by 2031. Of this, timing and synchronization units tied to GPS are already a mature multi-billion dollar market with nearly half a million units sold per year.\*

Source:

<https://www.euspa.europa.eu/2022-market-report>

Source:

[https://www.gsc-europa.eu/sites/default/files/sites/all/files/Report\\_on\\_User\\_Needs\\_and\\_Requirements\\_Timing\\_Synchronisation.pdf](https://www.gsc-europa.eu/sites/default/files/sites/all/files/Report_on_User_Needs_and_Requirements_Timing_Synchronisation.pdf)

## **Competitors**

All networks and power grids rely on timing from GPS, which isn't resilient or accurate enough for future applications. There are other national global navigation satellite systems (GNSS), including China's BeiDou, Russia's GLONASS, and Europe's Galileo. There are also private GNSS systems in work, including Xona Space Systems, TrustPoint, and Satelles. Other technologies, such as White Rabbit, can be used over fiber but at relatively short distances.

### *Current Stage and Roadmap*

## **Current Stage**

Xairos is an early-stage, pre-revenue company that has raised over \$1.3M of funding to date. With these proceeds, we have completed a proof-of-concept (POC) of our proprietary quantum clock synchronization (QCS) technology.

## **Roadmap**

We are planning this StartEngine raise to fund our QCS testbed, which is expected to be completed within 6 months of closing funding of \$1M, which will allow us to develop new IP and demonstrate our technology for customers. This will also allow us to develop a prototype for commercial pilot projects and our first quantum timing satellite.

## **The Team**

### **Officers and Directors**

**Name:** David Mitlyng

David Mitlyng's current primary role is with the Issuer.

Positions and offices currently held with the issuer:

- **Position:** CEO  
**Dates of Service:** March, 2019 - Present

**Responsibilities:** Responsible for the general and active management of the business of the company and ensures that all orders and resolutions of the Board of Directors are carried into effect.

- **Position:** Board Director  
**Dates of Service:** March, 2019 - Present  
**Responsibilities:** Manages and directs the overall business and affairs of the company.

Other business experience in the past three years:

- **Employer:** SpeQtral  
**Title:** COO  
**Dates of Service:** March, 2019 - December, 2020  
**Responsibilities:** Management

Other business experience in the past three years:

- **Employer:** TFWireless Inc  
**Title:** Business Advisor  
**Dates of Service:** November, 2021 - Present  
**Responsibilities:** Part-time business advisor to TFWireless for no compensation that requires only a few hours per month on an ad hoc basis.

**Name:** James Troupe

James Troupe's current primary role is with the Issuer.

Positions and offices currently held with the issuer:

- **Position:** Chief Quantum Scientist  
**Dates of Service:** November, 2020 - Present  
**Responsibilities:** Technology lead

Other business experience in the past three years:

- **Employer:** Applied Research Laboratories, The University of Texas at Austin  
**Title:** Research Associate  
**Dates of Service:** October, 2014 - November, 2020  
**Responsibilities:** Research

Other business experience in the past three years:

- **Employer:** Office of Naval Research Global  
**Title:** Science Director  
**Dates of Service:** August, 2018 - July, 2020  
**Responsibilities:** Researcher

**Name:** Roger Yee

Roger Yee's current primary role is with outcome/one. Roger Yee currently services 1 hours per week in their role with the Issuer.

Positions and offices currently held with the issuer:

- **Position:** Independent Director  
**Dates of Service:** December, 2020 - Present

**Responsibilities:** Manages and directs the overall business and affairs of the company.

Other business experience in the past three years:

- **Employer:** outcome/one  
**Title:** Managing Partner  
**Dates of Service:** April, 2019 - Present  
**Responsibilities:** Management

## **Risk Factors**

The SEC requires the company to identify risks that are specific to its business and its financial condition. The company is still subject to all the same risks that all companies in its business, and all companies in the economy, are exposed to. These include risks relating to economic downturns, political and economic events and technological developments (such as hacking and the ability to prevent hacking). Additionally, early-stage companies are inherently more risky than more developed companies. You should consider general risks as well as specific risks when deciding whether to invest.

These are the risks that relate to the Company:

### ***Uncertain Risk***

An investment in the Company (also referred to as “we”, “us”, “our”, or “Company”) involves a high degree of risk and should only be considered by those who can afford the loss of their entire investment. Furthermore, the purchase of any of the Non-Voting Common Stock should only be undertaken by persons whose financial resources are sufficient to enable them to indefinitely retain an illiquid investment. Each investor in the Company should consider all of the information provided to such potential investor regarding the Company as well as the following risk factors, in addition to the other information listed in the Company’s Form C. The following risk factors are not intended, and shall not be deemed to be, a complete description of the commercial and other risks inherent in the investment in the Company.

### ***Our business projections are only projections***

There can be no assurance that the Company will meet our projections. There can be no assurance that the Company will be able to find sufficient demand for our product, that people think it’s a better option than a competing product, or that we will be able to provide the service at a level that allows the Company to make a profit and still attract business.

### ***Any valuation at this stage is difficult to assess***

The valuation for the offering was established by the Company. Unlike listed companies that are valued publicly through market-driven stock prices, the valuation of private companies, especially startups, is difficult to assess and you may risk overpaying for your investment.

### ***The transferability of the Securities you are buying is limited***

Any Non-Voting Common Stock purchased through this crowdfunding campaign is subject to SEC limitations of transfer. This means that the stock that you purchase cannot be resold for a period of one year. The exception to this rule is if you are transferring the stock back to the Company, to an “accredited investor,” as part of an offering registered with the Commission, to a member of your family, trust created for the benefit of your family, or in connection with your death or divorce.

### ***Your investment could be illiquid for a long time***

You should be prepared to hold this investment for several years or longer. For the 12 months following your investment there will be restrictions on how you can resell the securities you receive. More importantly, there is no established market for these securities and there may never be one. As a result, if you decide to sell these securities in the future, you may not be able to find a buyer. The Company may be acquired by an existing player in the satellite industry and/or the position, navigation and timing industry. However, that may never happen or it may happen at a price that results in you losing money on this investment.

***If the Company cannot raise sufficient funds it will not succeed***

The Company is offering Non-Voting Common Stock in the amount of up to \$2 million in this offering and may close on any investments that are made. Even if the maximum amount is raised, the Company is likely to need additional funds in the future in order to grow, and if it cannot raise those funds for whatever reason, including reasons relating to the Company itself or the broader economy, it may not survive. If the Company manages to raise only the minimum amount of funds, sought, it will have to find other sources of funding for some of the plans outlined in "Use of Proceeds."

***Terms of subsequent financings may adversely impact your investment***

We will likely need to engage in common equity, debt, or preferred stock financings in the future, which may reduce the value of your investment in the Common Stock. Interest on debt securities could increase costs and negatively impact operating results. Preferred stock could be issued in series from time to time with such designation, rights, preferences, and limitations as needed to raise capital. The terms of preferred stock could be more advantageous to those investors than to the holders of Common Stock. In addition, if we need to raise more equity capital from the sale of Common Stock, institutional or other investors may negotiate terms that are likely to be more favorable than the terms of your investment, and possibly a lower purchase price per share.

***Management Discretion as to Use of Proceeds***

Our success will be substantially dependent upon the discretion and judgment of our management team with respect to the application and allocation of the proceeds of this Offering. The use of proceeds described below is an estimate based on our current business plan. We, however, may find it necessary or advisable to re-allocate portions of the net proceeds reserved for one category to another, and we will have broad discretion in doing so.

***Projections: Forward Looking Information***

Any projections or forward looking statements regarding our anticipated financial or operational performance are hypothetical and are based on management's best estimate of the probable results of our operations and will not have been reviewed by our independent accountants. These projections will be based on assumptions which management believes are reasonable. Some assumptions invariably will not materialize due to unanticipated events and circumstances beyond management's control. Therefore, actual results of operations will vary from such projections, and such variances may be material. Any projected results cannot be guaranteed.

***The amount raised in this offering may include investments from company insiders or immediate family members***

Officers, directors, executives, and existing owners with a controlling stake in the company (or their immediate family members) may make investments in this offering. Any such investments will be included in the raised amount reflected on the campaign page.

***We may never have an operational product or service***

It is possible that there may never be an operational Quantum Time Synchronization service or that the product may never be used to engage in transactions. It is possible that the failure to release the product is the result of a change in business model upon Company's making a determination that the business model, or some other factor, will not be in the best interest of Company and its stockholders/members/creditors.

***Some of our products are still in prototype phase and might never be operational products***

It is possible that there may never be an operational product or that the product may never be used to engage in transactions. It is possible that the failure to release the product is the result of a change in business model upon the Company's making a determination that the business model, or some other factor, will not be in the best interest of the Company and its stockholders.

***Developing new products and technologies entails significant risks and uncertainties***

We are currently in the research and development stage and have only manufactured a prototype for our Quantum Clock Synchronization. Delays or cost overruns in the development of our Quantum Clock Synchronization service and failure of the product to meet our performance estimates may be caused by, among other things, unanticipated technological hurdles, difficulties in manufacturing, changes to design

and regulatory hurdles. Any of these events could materially and adversely affect our operating performance and results of operations.

***Minority Holder; Securities with No Voting Rights***

The Non-Voting Common Stock that an investor is buying has no voting rights attached to them. This means that you will have no rights in dictating on how the Company will be run. You are trusting in management discretion in making good business decisions that will grow your investments. Furthermore, in the event of a liquidation of our company, you will only be paid out if there is any cash remaining after all of the creditors of our company have been paid out.

***You are trusting that management will make the best decision for the company***

You are trusting in management discretion. You are buying securities as a minority holder, and therefore must trust the management of the Company to make good business decisions that grow your investment.

***This offering involves "rolling closings," which may mean that earlier investors may not have the benefit of information that later investors have.***

Once we meet our target amount for this offering, we may request that StartEngine instruct the escrow agent to disburse offering funds to us. At that point, investors whose subscription agreements have been accepted will become our investors. All early-stage companies are subject to a number of risks and uncertainties, and it is not uncommon for material changes to be made to the offering terms, or to companies' businesses, plans or prospects, sometimes on short notice. When such changes happen during the course of an offering, we must file an amended to our Form C with the SEC, and investors whose subscriptions have not yet been accepted will have the right to withdraw their subscriptions and get their money back. Investors whose subscriptions have already been accepted, however, will already be our investors and will have no such right.

***We face significant market competition***

We will compete with larger, established companies who currently have products on the market and/or various respective product development programs. They may have much better financial means and marketing/sales and human resources than us. They may succeed in developing and marketing competing equivalent products earlier than us, or superior products than those developed by us. There can be no assurance that competitors will render our technology or products obsolete or that the products developed by us will be preferred to any existing or newly developed technologies. It should further be assumed that competition will intensify.

***We are an early stage company and have not yet generated any profits***

Xairos Systems, Inc. was formed on 19 March 2019. Accordingly, the Company has a limited history upon which an evaluation of its performance and future prospects can be made. Our current and proposed operations are subject to all business risks associated with new enterprises. These include likely fluctuations in operating results as the Company reacts to developments in its market, managing its growth and the entry of competitors into the market. We will only be able to pay dividends on any shares once our directors determine that we are financially able to do so. Xairos has incurred a net loss and has had limited revenues generated since inception. There is no assurance that we will be profitable in the next 3 years or generate sufficient revenues to pay dividends to the holders of the shares.

***We are an early stage company and have limited revenue and operating history***

The Company has a short history, few customers, and effectively no revenue. If you are investing in this company, it's because you think that Xairos is a good idea, that the team will be able to successfully market, and sell the product or service, that we can price them right and sell them to enough peoples so that the Company will succeed. Further, we have never turned a profit and there is no assurance that we will ever be profitable.

***We have existing patents that we might not be able to protect properly***

One of the Company's most valuable assets is its intellectual property. The Company owns 2 patents with an additional 2 provisional patents filed. We believe one of the most valuable components of the Company is our intellectual property portfolio. Due to the value, competitors may misappropriate or violate the rights owned by the Company. The Company intends to continue to protect its intellectual property portfolio from such violations. It is important to note that unforeseeable costs associated with



such practices may invade the capital of the Company.

***We have pending patent approval's that might be vulnerable***

One of the Company's most valuable assets is its intellectual property. The Company's intellectual property such as patents, trademarks, copyrights, Internet domain names, and trade secrets may not be registered with the proper authorities. We believe one of the most valuable components of the Company is our intellectual property portfolio. Due to the value, competitors may misappropriate or violate the rights owned by the Company. The Company intends to continue to protect its intellectual property portfolio from such violations. It is important to note that unforeseeable costs associated with such practices may invade the capital of the Company due to its unregistered intellectual property.

***The loss of one or more of our key personnel, or our failure to attract and retain other highly qualified personnel in the future, could harm our business***

To be successful, the Company requires capable people to run its day to day operations. As the Company grows, it will need to attract and hire additional employees in sales, marketing, design, development, operations, finance, legal, human resources and other areas. Depending on the economic environment and the Company's performance, we may not be able to locate or attract qualified individuals for such positions when we need them. We may also make hiring mistakes, which can be costly in terms of resources spent in recruiting, hiring and investing in the incorrect individual and in the time delay in locating the right employee fit. If we are unable to attract, hire and retain the right talent or make too many hiring mistakes, it is likely our business will suffer from not having the right employees in the right positions at the right time. This would likely adversely impact the value of your investment.

***Satellite Mission Risk***

Xairos' future financial projections includes, but is not limited to, revenue generated from satellite operations. A full or partial failure of the satellite or launch vehicle may occur that could impair the mission performance and associated business. This risk is typical in the space industry, and there are mitigation products available including launch and on-orbit operation insurance. The Xairos team has decades of experience building satellites and will also implement a risk reduction plan including robust testing, system and on-orbit redundancy, and business diversity.

## Ownership and Capital Structure; Rights of the Securities

### Ownership

The following table sets forth information regarding beneficial ownership of the company's holders of 20% or more of any class of voting securities as of the date of this Offering Statement filing.

Stockholder Name	Number of Securities Owned	Type of Security Owned	Percentage
David Mitlyng	5,625,000	Common Stock	28.12%

### The Company's Securities

The Company has authorized Convertible Note, Common Stock, Convertible Note, SAFE, Convertible Note, and Non-Voting Common Stock. As part of the Regulation Crowdfunding raise, the Company will be offering up to 2,000,000 of Non-Voting Common Stock.

#### *Convertible Note*

The security will convert into Class of stock issued as part of the qualifying financing and the terms of the Convertible Note are outlined below:

**Amount outstanding:** \$150,000.00

**Maturity Date:** June 11, 2023

**Interest Rate:** 5.0%

**Discount Rate:** 20.0%

**Valuation Cap:** \$3,000,000.00

**Conversion Trigger:** Qualifying Financing

#### *Material Rights*

There are no material rights associated with Convertible Note.

#### *Common Stock*

The amount of security authorized is 25,900,000 with a total of 20,000,000 outstanding.

#### *Voting Rights*

One vote per share.

#### *Material Rights*

*The total amount outstanding includes 3,600,000 shares to be issued pursuant to stock options issued.*

*The total amount outstanding includes 5,637,500 shares to be issued pursuant to stock options, reserved but unissued.*

#### *Convertible Note*

The security will convert into Equity - non-voting common and the terms of the Convertible Note are outlined below:

**Amount outstanding:** \$350,416.00

**Maturity Date:** October 08, 2025

**Interest Rate:** 4.0%

**Discount Rate:** 20.0%

**Valuation Cap:** \$10,000,000.00

**Conversion Trigger:** 5,000,000 Qualifying Financing

#### *Material Rights*

There are no material rights associated with Convertible Note.

## ***SAFE***

The security will convert into Series a common or series a preferred and the terms of the SAFE are outlined below:

**Amount outstanding:** \$140,000.00

**Interest Rate:** 0.0%

**Discount Rate:** 20.0%

**Valuation Cap:** \$10,000,000.00

**Conversion Trigger:** Equity financing

### ***Material Rights***

There are no material rights associated with SAFE .

## ***Convertible Note***

The security will convert into Preferred equity and the terms of the Convertible Note are outlined below:

**Amount outstanding:** \$285,189.00

**Maturity Date:** November 16, 2025

**Interest Rate:** 5.0%

**Discount Rate:** 20.0%

**Valuation Cap:** \$10,000,000.00

**Conversion Trigger:** \$5,000,000 Qualifying Financing

### ***Material Rights***

There are no material rights associated with Convertible Note.

## ***Non-Voting Common Stock***

The amount of security authorized is 4,100,000 with a total of 0 outstanding.

### ***Voting Rights***

There are no voting rights associated with Non-Voting Common Stock.

### ***Material Rights***

**Liquidation.** In the event of the voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of the Company, the holders of Common Stock and the holders of Non-Voting Common Stock shall be entitled to share equally, on a per share basis, all assets of the Company of whatever kind available for distribution to the holders of capital stock of the Company.

**Dividends.** The holders of Common Stock and the holders of Non-Voting Common Stock shall be entitled to share equally, on a per share basis, in such dividends and other distributions of cash, property or shares of stock of the Company as may be declared by the Board of Directors.

**Conversion.** If at any time after issuance of Non-Voting Common Stock the holder thereof demonstrates to the satisfaction of the Board or officers of the Company, acting in good faith that such holder is an "Accredited Investor", then such holder may elect to convert his or her shares of Non-Voting Common Stock into shares of Common Stock on a 1-to-1 ratio by written notice to the Company.

**Non-voting stock receives cash in sale transactions rather than buyer equity.** In certain situations (a proposed merger or sale transaction involving the Company) in which holders of voting common stock would receive stock in the buyer that is purchasing the Company, holders of non-voting common stock would instead receive cash of equivalent value if the Company's Board of Directors determines that this is needed to comply with applicable securities laws. The payment of cash may happen under the acquisition agreement with the buyer, or the Company itself may redeem the non-voting common stock for cash, either at or prior to the closing of the sale transaction. The Board has the authority to take actions in good

faith in connection with a sale transaction to effect the sale in a manner that is compliant with applicable securities laws, including by having cash paid to holders of non-voting common stock rather than unregistered equity securities.

## What it means to be a minority holder

As a minority holder of Non-Voting Common Stock of the company, you will have limited rights in regards to the corporate actions of the company, including additional issuances of securities, company repurchases of securities, a sale of the company or its significant assets, or company transactions with related parties. Further, investors in this offering may have rights less than those of other investors, and will have limited influence on the corporate actions of the company.

## Dilution

Investors should understand the potential for dilution. The investor's stake in a company could be diluted due to the company issuing additional shares. In other words, when the company issues more shares, the percentage of the company that you own will go down, even though the value of the company may go up. You will own a smaller piece of a larger company. This increase in number of shares outstanding could result from a stock offering (such as an initial public offering, another crowdfunding round, a venture capital round, angel investment), employees exercising stock options, or by conversion of certain instruments (e.g. convertible bonds, preferred shares or warrants) into stock.

If the company decides to issue more shares, an investor could experience value dilution, with each share being worth less than before, and control dilution, with the total percentage an investor owns being less than before. There may also be earnings dilution, with a reduction in the amount earned per share (though this typically occurs only if the company offers dividends, and most early stage companies are unlikely to offer dividends, preferring to invest any earnings into the company).

## Transferability of securities

For a year, the securities can only be resold:

- In an IPO;
- To the company;
- To an accredited investor; and
- To a member of the family of the purchaser or the equivalent, to a trust controlled by the purchaser, to a trust created for the benefit of a member of the family of the purchaser or the equivalent, or in connection with the death or divorce of the purchaser or other similar circumstance.

## Recent Offerings of Securities

We have made the following issuances of securities within the last three years:

- **Type of security sold:** SAFE  
**Final amount sold:** \$140,000.00  
**Use of proceeds:** Building a proof-of-concept  
**Date:** September 28, 2022  
**Offering exemption relied upon:** Section 4(a)(2)
- **Type of security sold:** Convertible Note  
**Final amount sold:** \$150,000.00  
**Use of proceeds:** General Corporate Expenses  
**Date:** August 23, 2021  
**Offering exemption relied upon:** Section 4(a)(2)
- **Type of security sold:** Convertible Note

**Final amount sold:** \$350,416.00  
**Use of proceeds:** Proof-of-concept  
**Date:** June 23, 2022  
**Offering exemption relied upon:** Regulation CF

- **Type of security sold:** Convertible Note  
**Final amount sold:** \$285,189.00  
**Use of proceeds:** Proof of Concept  
**Date:** November 16, 2022  
**Offering exemption relied upon:** Section 4(a)(2)
- **Name:** Fixed Percentage Convertible Equity Agreement  
**Type of security sold:** Equity  
**Final amount sold:** \$20,000.00  
**Number of Securities Sold:** 0  
**Use of proceeds:** General Corporate Expenses  
**Date:** June 16, 2021  
**Offering exemption relied upon:** Section 4(a)(2)
- **Name:** Common Stock  
**Type of security sold:** Equity  
**Final amount sold:** \$180,000.00  
**Number of Securities Sold:** 37,500  
**Use of proceeds:** Corporate expenses  
**Date:** June 11, 2019  
**Offering exemption relied upon:** Section 4(a)(2)

## Financial Condition and Results of Operations

### Financial Condition

*You should read the following discussion and analysis of our financial condition and results of our operations together with our financial statements and related notes appearing at the end of this Offering Memorandum. This discussion contains forward-looking statements reflecting our current expectations that involve risks and uncertainties. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed in the section entitled "Risk Factors" and elsewhere in this Offering Memorandum.*

### Results of Operations

Circumstances which led to the performance of financial statements:

Year ended December 31, 2021 compared to year ended December 31, 2022.

#### Revenue

Revenue for fiscal year 2021 was \$0 compared to \$0 in fiscal year 2022.

Xairos is a pre-revenue company. We have received small business innovation research (SBIR) grants but these are booked as other income and not as revenue.

#### Cost of sales

Cost of Sales for fiscal year 2021 was \$0 compared to \$0 in fiscal year 2022.

Xairos is a pre-revenue company so there was no cost of sales to report.

### Gross margins

Gross margins for fiscal year 2021 were \$0 compared to \$0 in fiscal year 2022.

Xairos is a pre-revenue company so there are no sales with margins to report.

### Expenses

Total Operating Expenses for fiscal year 2021 were \$826,306 compared to \$818,028 in fiscal year 2022.

The expenses were effectively unchanged.

### **Historical results and cash flows:**

The Company is currently in the growth stage and pre-revenue. We are of the opinion the historical cash flows will not be indicative of the revenue and cash flows expected for the future because the Company is now ready to transition towards government revenue and commercial pilot projects that will establish traction for larger revenue. This transition is enabled by the successful completion of the proof-of-concept (POC) and the build-out of a demonstration testbed that will be enabled by a successful raise on Start Engine.

Previous cash flow has been primarily generated through US small business innovation research (SBIR) grants (\$500K), angel and venture investment (\$700K), a previous Reg CF raise (\$350K), and a Colorado Advanced Industries Grant (\$250K). Subject to amounts raised with the StartEngine fundraising, Xairos expects to use the proceeds of the Offering to continue to finance operations, make additional hires, build a testbed for demonstrations for potential customers, and develop new IP and research. Xairos management will have full discretion as to the use of any proceeds from this Offering and will deploy such proceeds in a manner that it believes best serves the requirements of the Company.

### **Liquidity and Capital Resources**

**What capital resources are currently available to the Company? (Cash on hand, existing lines of credit, shareholder loans, etc...)**

As of the end of Q1 2023, the Company has \$92,021.34 cash on hand as of March 31, 2023, as well as \$48,319.36 remaining from an Advanced Industries Grant from the State of Colorado.

**How do the funds of this campaign factor into your financial resources? (Are these funds critical to your company operations? Or do you have other funds or capital resources available?)**

We believe the funds of this campaign are critical to our company operations, notably, allowing us to make the necessary hires and build a testbed that will be used for demonstrations for investors and other customers. We have other funding options including the remaining funds in the Colorado Advanced Industry grant and are pursuing other investment, non-dilutive grants, subcontractor, and government proposal opportunities.

**Are the funds from this campaign necessary to the viability of the company? (Of the total funds that your company has, how much of that will be made up of funds raised from the crowdfunding campaign?)**

A portion of funds from this campaign are expected to be used for ongoing business operations and are necessary for the viability of the Company. Of the total funds that our Company has, 90% will be made up of funds raised from the StartEngine crowdfunding campaign, if it raises its maximum funding goal. The funds raised would allow us to expand operations and the team and build our testbed.

**How long will you be able to operate the company if you raise your minimum? What expenses is this estimate based on?**

If the Company raises the minimum offering amount, we anticipate the Company will be able to operate for approximately 5 months. This is based on a monthly burn rate of approximately \$50,000 for expenses related primarily to employee salaries, professional services, and general administrative expenses.

#### **How long will you be able to operate the company if you raise your maximum funding goal?**

If the Company raises the maximum offering amount, we anticipate the Company will be able to operate for 18 months. This is based on an expected increase in the monthly burn rate to \$125,000 for expenses related to salaries for current employees, professional services, general administrative expenses, new hires, and the material expenses required to build our demonstration testbed.

#### **Are there any additional future sources of capital available to your company? (Required capital contributions, lines of credit, contemplated future capital raises, etc...)**

The Company anticipates additional future sources of capital will include (a) equity investment from strategic and venture capital investors, (b) non-dilutive grants, and (c) government projects, either as a prime contractor or subcontractor.

### **Indebtedness**

- **Creditor:** SpeQtral Pte. Ltd.  
**Amount Owed:** \$827,000.00  
**Interest Rate:** 5.0%  
**Maturity Date:** January 01, 2026  
Periodic annual installments and interest to be paid on 1 January.
- **Creditor:** Business Administration EIDL loan  
**Amount Owed:** \$27,000.00  
**Interest Rate:** 3.75%  
**Maturity Date:** October 07, 2050  
\$120 per month payment

### **Related Party Transactions**

The Company has not conducted any related party transactions

### **Valuation**

**Pre-Money Valuation:** \$20,000,000.00

#### **Valuation Details:**

The pre-money valuation is based on the following factors: (a) technological progress that includes a proof of concept successfully built demonstrating timing accuracy that is significantly better than existing technologies, (b) assumption that the technology being developed by Xairos combined with the addressable market opportunity and strength of the founders and team will position the Company to achieve commercial success, and (c) a review of comparable valuations of early stage capital raises by companies engaged in quantum technology or space technology.

#### Market Growth & Trends

Xairos is addressing a sub-segment of a very large global Position, Navigation and Timing ("PNT") market that is not effectively addressed by GPS and other global navigation satellite systems ("GNSS"). GPS alone is estimated to have created \$1.4T in economic benefit since it was made available for commercial use in

the mid-1990s, and the PNT total addressable market is estimated to reach nearly half a trillion dollars by 2031. The trend in the market for PNT is for ever-increasing timing accuracy and security for new applications and networks. This includes a number of government initiatives in countries such as the United States where efforts are underway to identify PNT alternatives.

Sources:

<https://www.rti.org/impact/gps-14-trillion-economic-engine>

[https://www.euspa.europa.eu/sites/default/files/uploads/euspa\\_market\\_report\\_2022.pdf](https://www.euspa.europa.eu/sites/default/files/uploads/euspa_market_report_2022.pdf)

### Comparable Competitor Companies

Xairos' valuation compares favorably to comparable companies. These comparable companies have commonalities based on market, asset ownership, company size, and stage of development.

The comps focus on space, quantum, and PNT startups that have closed a seed / early-stage funding round within the last three years with similar size and business maturity to Xairos. Data has been pulled from industry-accepted sources and other publicly available sources:

#### **QuSecure**

- Sector: Quantum communications and post-quantum security (PQC)
- Pre-Money valuation: \$24M
- Amount raised: \$5M
- Date: August 2021

#### **Xona Space Systems**

- Sector: PNT, Space
- Pre-Money valuation: \$20M
- Amount raised: \$10M
- Date: April 2022

#### **Xenesis**

- Sector: Space, optical communications
- Seed Funding amount raised: \$35M, July 2022 at a pre-money valuation of \$83.5M
- Angel Investment amount raised: \$750K, March 2021 at a pre-money valuation of \$21.43M

#### **ColdQuanta**

- Sector: Quantum
- Pre-Money valuation: \$20M
- Amount raised: \$10M
- Date: November 2019

We also looked at comps with Stoicheia, Terra Quantum, InfinityQ, and Atlantic Quantum in the quantum sector, and at Agile Space Industries, Astro Forge, Lunar Outpost, and APEX in the space sector.

### The Value of the Company's Assets

Xairos has both physical and intangible assets that bring value to the Company.

The main physical assets are contained within the proof-of-concept hardware and test equipment, the proprietary quantum processing software, and a simulation model which has been validated by the POC.

However, there is more value associated with the intangible assets with the two issued patents and filed provisional patents, including:

US Patent Application No. 17/348,585 "Quantum Secure Network Clock Synchronization"

US Patent Application No. 16/569,280 "Quantum Secure Clock Synchronization Based on Time-Energy and Polarization Entangled Photon Pairs"

Provisional patents:



1. “Authenticated High Precision Clock Synchronization through Dispersive Channels using Time-Frequency Entanglement”
2. “Fully Secure High Precision Clock Synchronization through a Dispersive Channel using Time-Frequency Entangled Photons”
3. Three more provisional patents in work

There is also valuable IP contained as a trade secret within the software algorithm that has been used to optimize the time synchronization protocol for a range of operating conditions.

#### Management's Prior Achievements & Success

This valuation is also based on the quality of a team that has the experience necessary to deliver this quantum time system.

James Troupe, Ph.D. is the Chief Quantum Scientist and Co-founder. James is a quantum scientist with three decades of experience and the inventor of Xairos' QCS protocol. James developed the exclusive IP and patents and wrote the original papers “Secure Quantum Clock Synchronization” and “Symmetrical clock synchronization with time-correlated photon pairs,” among others.

David Mitlyng is the CEO and co-founder with over three decades of space and business experience. David has built numerous complex systems for large satellite companies, before getting his MBA and entering the new space arena. Xairos is his third startup, helping lead two other startups through Series A funding and towards an exit trajectory.

The rest of the team consists of quantum, space, and tech expertise hand-selected by the founders based on their ability to deliver Xairos' vision.

#### Business Partnerships & Relationships

Xairos has already developed relations with the US Air Force, NASA, and US Navy having completed contracts with these agencies. Xairos has also been selected for three prestigious accelerators: the Air Force-sponsored Catalyst Accelerator, Techstars, and Creative Destruction Lab (CDL). Xairos has established commercial partnerships with satellite manufacturer Spire Global and research collaboration agreements with two major universities.

#### Fully-Diluted Outstanding Shares

The Company currently has 20,000,000 shares outstanding as calculated on a fully-diluted basis. Multiplying this amount by the share price of \$1 produces a pre-money valuation of \$20,000,000.

#### **Conclusion**

Based on its analysis of these factors, Xairos believes its pre-money valuation of \$20,000,000 is accurate.

#### *Disclaimers*

*The Company set its valuation internally, without a formal-third party independent evaluation*

*The pre-money valuation has been calculated on a fully diluted basis. In making this calculation, we have assumed: (i) all outstanding options, warrants, and other securities with a right to acquire shares are exercised; and (ii) any shares reserved for issuance under a stock plan are issued.*

*The pre-money valuation does not take into account any convertible securities currently outstanding. The Company currently has \$785,605 in convertible notes outstanding and \$140,000 in SAFE agreements outstanding. Please refer to the Company Securities section of the Offering Memorandum for further details regarding current outstanding convertible securities which may affect your ownership in the future.*

#### **Use of Proceeds**

If we raise the Target Offering Amount of \$10,000.00 we plan to use these proceeds as follows:

- *StartEngine Platform Fees*  
5.5%
- *StartEngine Service Fees*  
94.5%  
Fees for certain services provided by StartEngine

If we raise the over allotment amount of \$2,000,000.00, we plan to use these proceeds as follows:

- *StartEngine Platform Fees*  
5.5%
- *Research & Development*  
49.0%  
Xairos expects to use the proceeds to design, build and launch the first US quantum satellite.
- *Company Employment*  
25.0%  
Xairos has identified key technical hires that will be retained to continue the development of the Quantum Time Synchronization hardware and quantum satellite.
- *Operations*  
20.5%  
Xairos will use a portion of the proceeds to enter into a premises, develop a research and development lab, and build demonstration testbeds.

The Company may change the intended use of proceeds if our officers believe it is in the best interests of the company.

## Regulatory Information

### Disqualification

No disqualifying event has been recorded in respect to the company or its officers or directors.

### Compliance Failure

The company has not previously failed to comply with the requirements of Regulation Crowdfunding.

### Ongoing Reporting

The Company will file a report electronically with the SEC annually and post the report on its website no later than April 29 (120 days after Fiscal Year End). Once posted, the annual report may be found on the Company's website at <https://www.xairos.com/> ([www.xairos.com/investor\\_relations/annual\\_report](https://www.xairos.com/investor_relations/annual_report)).

The Company must continue to comply with the ongoing reporting requirements until:

- (1) it is required to file reports under Section 13(a) or Section 15(d) of the Exchange Act;
- (2) it has filed at least one (1) annual report pursuant to Regulation Crowdfunding and has fewer than three hundred (300) holders of record and has total assets that do not exceed \$10,000,000;
- (3) it has filed at least three (3) annual reports pursuant to Regulation Crowdfunding;
- (4) it or another party repurchases all of the securities issued in reliance on Section 4(a)(6) of the Securities Act, including any payment in full of debt securities or any complete redemption of redeemable securities; or

(5) it liquidates or dissolves its business in accordance with state law.

## **Updates**

Updates on the status of this Offering may be found at: [www.startengine.com/xairossystems](http://www.startengine.com/xairossystems)

## **Investing Process**

See Exhibit E to the Offering Statement of which this Offering Memorandum forms a part.

**EXHIBIT B TO FORM C**

**FINANCIAL STATEMENTS AND INDEPENDENT ACCOUNTANT'S REVIEW FOR Xairos Systems, Inc.**

*[See attached]*



# Xairos Systems, Inc.

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(A Development Stage Company)

## Financial Statements

For the Years Ended December 31, 2021 and 2022

*Together with Independent Auditor's Report*

## Index to Financial Statements

Independent Auditor's Report	Preface
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To the Board of Directors of Xairos Systems, Inc.

We have audited the accompanying balance sheets of Xairos Systems, Inc., a Delaware corporation (“Xairos” or the “Company”) as of December 31, 2021 and 2022 and the related statements of operations, changes in stockholders’ equity (deficit) and cash flows for the years then ended and the related notes (collectively referred to as the financial statements).

### **Management’s Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

### **Auditor’s Responsibilities for the Audit of the Financial Statements**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2022 and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

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***Xairos Systems, Inc.***  
***(A Development Stage Company)***  
***Financial Statements for the Years Ended December 31, 2021 and 2022***

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**Emphasis of a Matter**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has incurred recurring losses from operations, has a net capital deficit, and accordingly, substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the Company's circumstances and management's plans regarding these matters also are described in Note 2. The financial statements do not include any adjustments to reflect this uncertainty. Our opinion is not modified with respect to this matter.

Marpé Finance & Accounting  
April 17, 2023



***Xairos Systems, Inc.***  
***(A Development Stage Company)***  
***Financial Statements for the Years Ended December 31, 2021 and 2022***

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**Balance Sheets**

	<b>December 31,</b>	
	<b>2021</b>	<b>2022</b>
<b>Assets</b>		
Current assets		
Cash	\$ 103,481	\$ 23,590
Total current assets	103,481	23,590
Equipment, net	-	74,470
<b>Total assets</b>	<b>\$ 103,481</b>	<b>\$ 98,060</b>
<b>Liabilities and Stockholders' Deficit</b>		
Current liabilities		
Accrued liabilities	\$ 30,363	\$ 29,080
Revolving debt	-	50,390
Total current liabilities	30,363	79,470
Notes payable	815,885	854,323
Convertible Notes Payable	333,525	457,831
Crowdfunding Convertible Note Payable	-	397,045
Other noncurrent liabilities	120,000	160,000
Total liabilities	1,299,773	1,948,669
Common stock		
par value of \$0.001 per share; 100,000		
shares authorized, 42,500 shares outstanding		
as of December 31, 2021 and 2022	43	43
Additional paid-in capital	274,438	406,470
Accumulated deficit	(1,470,773)	(2,257,122)
Total stockholders' deficit	(1,196,292)	(1,850,609)
<b>Total Liabilities and Stockholders' Deficit</b>	<b>\$ 103,481</b>	<b>\$ 98,060</b>

The accompanying notes are an integral part of these financial statements.

***Xairos Systems, Inc.***  
***(A Development Stage Company)***  
***Financial Statements for the Years Ended December 31, 2021 and 2022***

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**Statements of Operations**

	<b>Year Ended December 31,</b>	
	<b>2021</b>	<b>2022</b>
Revenues	\$ -	\$ -
Cost of revenues	-	-
Gross profit	-	-
Operating expenses		
Sales & marketing expenses	83,941	134,442
Research & development expenses	286,210	407,671
General & administrative expenses	456,155	275,915
Total operating expenses	826,306	818,028
Operating loss	(826,306)	(818,028)
Other income, net	245,237	30,382
Income tax benefit	13,781	1,297
Net loss	<u>\$ (567,288)</u>	<u>\$ (786,349)</u>

The accompanying notes are an integral part of these financial statements.

***Xairos Systems, Inc.***  
***(A Development Stage Company)***  
***Financial Statements for the Years Ended December 31, 2021 and 2022***

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**Statements of Stockholders' Deficit**  
**Years Ended December 31, 2021 and 2022**

	<b>Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Accumulated Deficit</b>	<b>Total Stockholders' Deficit</b>
	<b>Shares</b>	<b>Amount</b>			
<b>Balances - December 31, 2020</b>	37,500	\$ 38	\$ 180,062	\$ (903,485)	\$ (723,385)
Issuance of Common Stock	5,000	5	17,495	-	17,500
Capital contribution by stockholder	-	-	53,000	-	53,000
Stock-based compensation	-	-	23,881	-	23,881
Net loss	-	-	-	(567,288)	(567,288)
<b>Balances - December 31, 2021</b>	42,500	43	274,438	(1,470,773)	(1,196,292)
Capital contribution by stockholder	-	-	105,000	-	105,000
Stock-based compensation	-	-	27,032	-	27,032
Net loss	-	-	-	(786,349)	(786,349)
<b>Balances - December 31, 2022</b>	42,500	\$ 43	\$ 406,470	\$ (2,257,122)	\$ (1,850,609)

The accompanying notes are an integral part of these financial statements.

***Xairos Systems, Inc.***  
***(A Development Stage Company)***  
***Financial Statements for the Years Ended December 31, 2021 and 2022***

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**Statements of Cash Flows**

	<b>Year Ended December 31,</b>	
	<b>2021</b>	<b>2022</b>
<b>Cash Flows from Operations</b>		
Net loss	\$ (567,288)	\$ (786,349)
Adjustments to net loss		
Depreciation and amortization	-	16,782
Stock-based compensation	41,381	27,032
Accrued interest on convertible notes	4,836	27,677
Accrued interest on notes payable	38,438	38,438
Issuance of convertible notes in exchange for services	6,087	-
Forgiveness of PPP loan	(45,910)	-
Changes in assets & liabilities		
Accrued liabilities	30,363	(1,283)
<b>Total Cash Flows from Operations</b>	<u>(492,093)</u>	<u>(677,703)</u>
<b>Cash Flows from Investments</b>		
Purchase of equipment	-	(91,252)
<b>Total Cash Flows from Investments</b>	<u>-</u>	<u>(91,252)</u>
<b>Cash Flows from Financing</b>		
Increase (decrease) in revolving debt	-	50,390
Issuance of Convertible Notes Payable	322,603	106,500
Issuance of Crowdfunding Convertible Note Payable	-	387,174
Issuance of Simple Agreements for Future Equity ("SAFEs")	100,000	40,000
Issuance of convertible instrument for cash	20,000	-
Capital contribution by stockholder	53,000	105,000
<b>Total Cash Flows from Financing</b>	<u>495,603</u>	<u>689,064</u>
<b>Total Cash Flows</b>	3,510	(79,891)
<b>Beginning Cash Balance</b>	99,971	103,481
<b>Ending Cash Balance</b>	<u>\$ 103,481</u>	<u>\$ 23,590</u>

The accompanying notes are integral part of these financial statements.

***Xairos Systems, Inc.***  
***(A Development Stage Company)***  
***Financial Statements for the Years Ended December 31, 2021 and 2022***

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**NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS**

Xairos Systems, Inc. (“Xairos” or the “Company”) was incorporated as a Delaware corporation on March 19, 2019. The Company’s original name was Spectral Quantum Technologies, Inc. and was changed to Xairos Systems, Inc. on June 8, 2021.

Xairos is developing a new global timing system, based on its proprietary quantum technology, which management believes will provide improved accuracy, security, and efficiency, relative to current systems in use.

The Company is in the process of developing its core technology and product offerings and has not yet earned any revenues. Thus, the Company is still in the development stage.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The Company’s financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

***Emerging Growth Company***

The Company is an “emerging growth company,” as defined in Section 2(a) of the Securities Act, as modified by the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”), and accordingly, it may take advantage of certain exemptions from various reporting requirements applicable to publicly traded companies that are not emerging growth companies. This may make comparison of the Company’s financial statements with the financial statements of a publicly traded company that is not an emerging growth company difficult.

***Certain Risks and Uncertainties***

The Company is subject to risks associated with emerging growth companies, including, but not limited to, rapid technology change, uncertainty of market acceptance of the Company’s products and services, competition from substitute products and larger companies, the ongoing need for investment capital, the need to protect its proprietary technology, the need to develop strategic relationships, and dependence on key personnel. The Company will continue to incur significant costs as an emerging growth company and will require additional financing in the future to fund growth. If the Company is unable to secure sufficient financing when needed, this could have a material adverse effect on the Company’s business operations.

***Going Concern***

These financial statements have been prepared based on the assumption that the Company will be able to continue to operate as a going concern. As of December 31, 2022, the Company has incurred cumulative net losses of approximately \$2,257,000 and cumulative negative operating cash flows of approximately \$1,821,000. To be able to continue operating, the Company will need to obtain financing within the next twelve months. Management is working to secure the financing needed for the Company’s continued operations. There can be no assurance that management will be successful in this endeavor. Thus, substantial doubt exists regarding whether the Company will be able to continue operating as a going concern. (See Note 8.)

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period and the accompanying notes.

***Xairos Systems, Inc.***  
***(A Development Stage Company)***  
***Financial Statements for the Years Ended December 31, 2021 and 2022***

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Significant items included in these financial statements that are subject to such estimates and assumptions include the fair values of financial instruments and the valuation of deferred tax assets. Management bases its estimates on historical and anticipated results, as well as various other assumptions that it believes are reasonable. Actual results could differ from these estimates, and such differences could have material impacts on the Company's financial statements.

***Cash and Cash Equivalents***

Cash consists of the Company's bank deposits. The Company considers all short-term investments with an original maturity of three months or less when purchased to be cash equivalents. The Company did not have any cash equivalents as of December 31, 2021.

***Fair Value of Financial Instruments***

Fair value is defined as the exchange price that would be received from the sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between independent market participants on the measurement date. The Company measures financial assets and liabilities at fair value as of each reporting period using a fair value hierarchy which maximizes the use of observable inputs, to the extent possible, and minimizes the use of unobservable inputs. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels of inputs used in assessing fair value of financial instruments are described below.

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity but are significant to the fair value of assets or liabilities.

Significant financial instruments in the Company's financial statements include notes payable, convertible notes payable, simple agreements for future equity ("SAFEs"), a crowdfunding convertible note payable and a convertible security. Notes payable, convertible notes payable, and the crowdfunding convertible note payable are reported at the original principal amounts plus accrued interest, as prescribed by the note agreements. The SAFEs and the convertible security are recorded at face value, based on the amounts paid for these securities, on the dates of issuance, by external investors in arm's-length transaction. Any variance between the fair market values and the reported values of these securities is immaterial.

***Research and Development***

Research and development costs primarily consist of payroll costs, stock-based compensation, laboratory services and supplies costs, costs of external consulting services and allocated overhead. Research and development costs are expensed as incurred.

***Comprehensive Income (Loss)***

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). The Company did not have any other comprehensive income (loss) transactions during the periods presented. Accordingly, comprehensive income (loss) is equal to net income (loss) for all periods presented.

***Xairos Systems, Inc.***  
***(A Development Stage Company)***  
***Financial Statements for the Years Ended December 31, 2021 and 2022***

***Income Taxes***

The Company applies the provisions of ASC 740, Income Taxes (“ASC 740”). Under ASC 740, the Company accounts for income taxes using the asset and liability method whereby deferred tax assets and liabilities are determined based on temporary differences between the bases used for financial reporting and income tax reporting purposes. Deferred income taxes are provided based on the enacted tax rates and laws that will be in effect at the time such temporary differences are expected to reverse. A valuation allowance is provided for deferred tax assets if it is more likely than not that the Company will not realize those tax assets through future operations.

The Company also utilizes the guidance in ASC 740 to account for uncertain tax positions. ASC 740 contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more likely than not of being realized and effectively settled. The Company considers many factors when evaluating and estimating the Company’s tax positions and tax benefits, which may require periodic adjustments, and which may not accurately reflect actual outcomes. The Company recognizes interest and penalties on unrecognized tax benefits as a component of provision for income taxes in the consolidated statements of operations.

For all periods presented, a 100% valuation allowance has been applied against all deferred tax assets.

**NOTE 3 – BALANCE SHEET COMPONENTS**

***Equipment***

Equipment consists of computer and scientific equipment purchased by the Company. Such equipment is being depreciated over a period of three years. The balance of equipment, net of accumulated depreciation, was \$0 and approximately \$74,000 as of December 31, 2021 and 2022, respectively. Depreciation expense, related to this equipment, totaled \$0 and approximately \$17,000 during the year ended December 31, 2021 and 2022, respectively. Accumulated depreciation totaled \$0 and approximately \$17,000 as of December 31, 2021 and 2022, respectively.

***Accrued Liabilities***

Accrued liabilities represent expenses which the Company has incurred but for which it has not yet paid. These amounts consist primarily of payroll and related costs. Accrued liabilities totaled approximately \$30,000 and \$29,000 as of December 31, 2021 and 2022, respectively.

***Revolving Debt***

Revolving debt consists of amounts owed on the Company’s credit cards for purchases made. Such outstanding amounts owed totaled \$0 and approximately \$50,000 as of December 31, 2021 and 2022, respectively.

***Notes Payable***

The components of notes payable are shown below.

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	<b>December 31,</b>	
	<b>2021</b>	<b>2022</b>
Former Series A Preferred Stockholder	\$ 789,760	\$ 827,260
Economic Injury Disaster Loan ("EIDL")	26,125	27,063
Total notes payable	<u>\$ 815,885</u>	<u>\$ 854,323</u>

In December 2020, the Company issued a note payable, in the amount of \$750,000, as consideration, in its repurchase and cancellation of all outstanding shares of Series A Redeemable Convertible Preferred Stock. This note bears interest at a rate of 5% per annum, which is compounded semiannually. The Company is obligated to make four annual payments of \$187,500 each, with the first payment due on January 1, 2023. The outstanding balance of this debt obligation was approximately \$790,000 and \$827,000 as of December 31, 2021 and 2022, respectively.

In October 2020, the Company obtained an Economic Injury Disaster Loan ("EIDL") administered through the SBA. The principal amount of the loan is \$25,000, and the debt bears interest at a rate of 3.75% per annum. The outstanding balance of this debt obligation was approximately \$26,000 and \$27,000 as of December 31, 2021 and 2022, respectively.

***Convertible Notes Payable***

The Company has issued several Convertible Notes Payable in exchange for cash financing in the aggregate amount of approximately \$435,000. These convertible notes bear interest at a rate of 5% per year. Outstanding Convertible Notes Payable totaled approximately \$334,000 and \$458,000 as of December 31, 2021 and 2022, respectively.

Upon a Qualified Preferred Stock Financing, the convertible notes will automatically convert into shares of Preferred Stock, at a conversion price equal to the lesser of:

- The price per share paid by the new Preferred Stock investors multiplied by the Discount Rate; or
- The Valuation Cap divided by the number of shares of Common Stock and common stock equivalents ("CSEs"), on a fully diluted basis, immediately prior to the Qualified Preferred Stock Financing.

The Discount Rate for all outstanding convertible notes is 80%. The Valuation Cap for the outstanding convertible notes ranges from \$3,000,000 to \$10,000,000.

The terms of the outstanding convertible notes range from two years to three years. Upon maturity, if the convertible notes have not been converted into shares of Preferred Stock, the convertible notes shall become due and payable to the convertible note holders, unless a holder elects to have his convertible note converted into shares of Common Stock instead. The earliest maturity date of all the currently outstanding convertible notes is June 11, 2023.

***Crowdfunding Convertible Note Financing***

During the year ended December 31, 2022, the Company raised approximately \$387,000 cash through a crowdfunding financing. In connection with this crowdfunding financing, the Company issued a Convertible Note, the Crowdfunding SPV Convertible Promissory Note (the "Crowdfunding Note") to Xairos CF SPV, LLC (the "SPV"), a special purpose vehicle, with no operations, created solely for this purpose. Retail investors, in turn, purchased limited liability company membership interests in the SPV. The Crowdfunding Note bears interest at a rate of 4% per annum. The outstanding balance of the Crowdfunding Convertible Note Payable totaled \$0 and approximately \$397,000 as of December 31, 2021 and 2022, respectively.

If the Company executes a Qualified Financing, defined as raising gross proceeds of at least \$5,000,000 cash by selling shares of stock (either Common or Preferred), then the Crowdfunding Note will convert into shares of stock, at a conversion price equal to the lesser of:



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- The price paid by the new equity investors multiplied by 80%; or
- \$10,000,000 divided by the number of shares of Common Stock and common stock equivalents (“CSEs”) outstanding, on a fully diluted basis (but excluding all convertible notes) immediately prior to the conversion of the Crowdfunding Note.

***Other Noncurrent Liabilities***

Other noncurrent liabilities consist of outstanding Simple Agreements for Future Equity (“SAFEs”) and a convertible security. Outstanding other noncurrent liabilities totaled \$120,000 and \$160,000 as of December 31, 2021 and 2022, respectively.

The Company has issued several SAFEs in exchange for cash financing in the aggregate amount of \$140,000. The SAFEs do not bear interest, and they have no maturity date.

Upon a Qualified Preferred Stock Financing, the SAFEs will automatically convert into shares of Preferred Stock, at a conversion price equal to the lesser of:

- The price per share paid by the new Preferred Stock investors multiplied by the Discount Rate; or
- The Valuation Cap divided by the number of shares of Common Stock and common stock equivalents (“CSEs”), on a fully diluted basis, immediately prior to the Qualified Preferred Stock Financing.

The Discount Rate for all outstanding SAFEs is 80%. The Valuation CAP for all outstanding SAFEs is \$10,000,000.

The Company issued a convertible security to an investor, which also provided accelerator services to the Company, in the amount of \$20,000. Upon an equity financing in which the Company sells new shares of stock, either Common or Preferred, for at least \$250,000, this convertible instrument will convert into shares of Common Stock equal to 6% of the number of outstanding shares of Common Stock and common stock equivalents, on a fully diluted basis, except that the convertible instruments (i.e., convertible notes and SAFEs) issued to other investors will be excluded from the calculation of fully diluted shares.

**NOTE 4 – COMMITMENTS AND CONTINGENCIES**

***Legal Matters***

The Company is not currently involved with any litigation, and management is not aware of any pending or threatened litigation against the Company.

**NOTE 5 – OTHER INCOME, NET**

The Company received approximately \$242,000 and \$98,000 in U.S. federal government research grants during the years ended December 31, 2021 and 2022, respectively. These amounts have been included in other income, net.

**NOTE 6 – INCOME TAXES**

The following table presents the current and deferred income tax accruals for federal and state income taxes for the years ended December 31, 2021 and 2022, respectively.

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	<b>December 31,</b>	
	<b>2021</b>	<b>2022</b>
Current income tax expense (benefit)		
Federal	\$ (13,781)	\$ (1,297)
State	-	-
Total	<u>(13,781)</u>	<u>(1,297)</u>
Deferred tax asset (liability)		
Federal	\$ 275,000	\$ 427,000
State	78,000	122,000
Valuation allowance	<u>(353,000)</u>	<u>(549,000)</u>
Total	-	-
Total provision for income taxes	<u>\$ (13,781)</u>	<u>\$ (1,297)</u>

The components of the Company's deferred tax assets for federal and state income taxes consisted of the following as of December 31, 2022 and 2021, respectively.

	<b>December 31,</b>	
	<b>2021</b>	<b>2022</b>
Deferred tax asset attributable to:		
Net operating loss carryover	\$ 219,000	\$ 353,000
Accrued expenses	134,000	196,000
Valuation allowance	<u>(353,000)</u>	<u>(549,000)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2022, the Company has approximately \$427,000 in deferred income tax assets for federal income taxes and approximately \$122,000 of deferred income tax assets for state income taxes. Such deferred tax assets are derived from the Company's ongoing losses, and they can be carried forward to offset and reduce future income and future income tax liabilities.

Because of the early stage of the Company and the significant uncertainty regarding future income and the ability to utilize the deferred tax assets, a 100% valuation allowance has been recorded to reduce the amount of recognized deferred tax assets to zero. The need for this valuation allowance will be reconsidered, and the valuation allowance potentially can be removed, in the future, if the Company demonstrates the ability to earn profits and utilize its deferred tax assets.

**NOTE 7 – STOCKHOLDERS' EQUITY**

***Common Stock***

The Company is authorized to issue 100,000 shares of Common Stock. As of December 31, 2022, 42,500 shares of Common Stock were outstanding. Of this amount, 25,000 shares, or approximately 58.8% of the total outstanding, are held by the Company's founder and CEO, who remains active in the daily management of the Company.

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***Additional Paid-In Capital***

The balance of additional paid-in capital was approximately \$274,000 and \$406,000 as of December 31, 2021 and 2022, respectively.

As of December 31, 2021 and 2022, Common Stockholders had contributed approximately \$251,000 and \$356,000, respectively, in excess of the aggregate par value of shares of Common Stock held. These amounts are included in additional paid-in capital.

Since inception, the Company has granted options to purchase 19,998 shares of Common Stock ("stock options") to employees and consultants in exchange for services. These stock options have exercise prices of \$3.50 per share. As of December 31, 2021 and 2022, aggregate amounts of approximately \$24,000 and \$51,000, respectively, have been charged to stock-based compensation expense, related to these stock options, with corresponding credits to additional paid-in capital.

**NOTE 8 – SUBSEQUENT EVENTS**

***Crowdfunding Financing***

In March 2023, the Company commenced a crowdfunding financing under Regulation CF. Thus far, the Company has raised approximately \$135,000 in gross proceeds from this crowdfunding financing.

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**EXHIBIT C TO FORM C**

**PROFILE SCREENSHOTS**

*[See attached]*



## EXHIBIT D TO FORM C

### VIDEO TRANSCRIPT

#### Main Campaign Video

Time synchronization is critical to all networks. Networks rely on time signals from GPS technology developed back in the 1970s. But while GPS has enabled the development of networks, it has reached its limits. This decades-old technology is not nearly accurate or secure enough for modern networks.

Xairos is disrupting the way time is delivered. We're building a global timing service to replace GPS. Our Quantum system is a technological leap providing orders of magnitude greater accuracy and resiliency. Xairos is now moving this patented technology from lab to commercial application. Initial roll-out will be over fiber for local networks, then satellites for wide area networks, and then interlinked satellites for a global timing service.

With this level of precision and resiliency, Xairos will enable technologies to reach their full potential.

The time for Xairos is now.

#### Additional Campaign Video

Quantum Communications individual particles of light known as photons are converted into pairs of photons that are entangled. These entangled photons are exchanged between distant clocks creating synchronization at much better accuracy and security than other time transfer methods.

Our design uses our proprietary software and system architecture but leverages off-the-shelf quantum optical components so it can be readily packaged into a compact terminal that links to our satellite for wide area network synchronization. Additional satellites will then be added for regional coverage until we have a global timing service.

## STARTENGINE SUBSCRIPTION PROCESS (Exhibit E)

### Platform Compensation

- As compensation for the services provided by StartEngine Capital, the issuer is required to pay to StartEngine Capital a fee consisting of a 5.5-13% (five and one-half to thirteen) commission based on the dollar amount of securities sold in the Offering and paid upon disbursement of funds from escrow at the time of a closing. The commission is paid in cash and in securities of the Issuer identical to those offered to the public in the Offering at the sole discretion of StartEngine Capital. Additionally, the issuer must reimburse certain expenses related to the Offering. The securities issued to StartEngine Capital, if any, will be of the same class and have the same terms, conditions and rights as the securities being offered and sold by the issuer on StartEngine Capital's website.
- As compensation for the services provided by StartEngine Capital, investors are also required to pay StartEngine Capital a fee consisting of a 0-3.5% (zero to three and a half percent) service fee based on the dollar amount of securities purchased in each investment.

### Information Regarding Length of Time of Offering

- Investment Cancellations: Investors will have up to 48 hours prior to the end of the offering period to change their minds and cancel their investment commitments for any reason. Once within 48 hours of ending, investors will not be able to cancel for any reason, even if they make a commitment during this period.
- Material Changes: Material changes to an offering include but are not limited to: A change in minimum offering amount, change in security price, change in management, material change to financial information, etc. If an issuer makes a material change to the offering terms or other information disclosed, including a change to the offering deadline, investors will be given five business days to reconfirm their investment commitment. If investors do not reconfirm, their investment will be canceled and the funds will be returned.

### Hitting The Target Goal Early & Oversubscriptions

- StartEngine Capital will notify investors by email when the target offering amount has hit 25%, 50% and 100% of the funding goal. If the issuer hits its goal early, the issuer can create a new target deadline at least 5 business days out. Investors will be notified of the new target deadline via email and will then have the opportunity to cancel up to 48 hours before the new deadline.
- Oversubscriptions: We require all issuers to accept oversubscriptions. This may not be possible if: 1) it vaults an issuer into a different category for financial statement requirements (and they do not have the requisite financial statements); or 2) they reach \$5M in investments. In the event of an oversubscription, shares will be allocated at the discretion of the issuer.
- If the sum of the investment commitments does not equal or exceed the target offering amount at the offering deadline, no securities will be sold in the offering, investment commitments will be canceled and committed funds will be returned.
- If a StartEngine issuer reaches its target offering amount prior to the deadline, it may conduct an initial closing of the offering early if they provide notice of the new offering deadline at least five business days prior to the new offering deadline (absent a material change that would require an extension of the offering and reconfirmation of the investment commitment). StartEngine will notify

investors when the issuer meets its target offering amount. Thereafter, the issuer may conduct additional closings until the offering deadline.

#### Minimum and Maximum Investment Amounts

- In order to invest, to commit to an investment or to communicate on our platform, users must open an account on StartEngine Capital and provide certain personal and non- personal information including information related to income, net worth, and other investments.
- Investor Limitations: There are no investment limits for investing in crowdfunding offerings for accredited investors. Non-accredited investors are limited in how much they can invest on all crowdfunding offerings during any 12-month period. The limitation on how much they can invest depends on their net worth (excluding the value of their primary residence) and annual income. If either their annual income or net worth is less than \$107,000, then during any 12-month period, they can invest either \$2,200 or 5% of their annual income or net worth, whichever is greater. If both their annual income and net worth are equal to or more than \$107,000, then during any 12-month period, they can invest up to 10% of annual income or net worth, whichever is greater, but their investments cannot exceed \$107,000.