Software Development Cost Capitalization Records

Confidential Document - Nexus Intelligent Systems, Inc.

1. INTRODUCTION AND PURPOSE

1 This document represents the comprehensive record of software development cost capitalization for Nexus Intelligent Systems, Inc. (hereinafter "the Company"), prepared in accordance with ASC 350-40 and relevant accounting standards governing internal-use software development expenditures.

2 The purpose of this document is to provide a detailed accounting of capitalized software development costs, including methodology, classification, and financial treatment of research and development expenses related to the Company's enterprise AI platforms and predictive analytics technologies.

2. CAPITALIZATION METHODOLOGY

1 Capitalization Criteria

The Company shall capitalize software development costs that meet the following specific criteria:

a) Technological feasibility has been established

b) Management intends to complete the software for internal use

c) The software will be used to perform a significant administrative or operational function

d) Incremental direct costs can be reliably measured and attributed

2 Cost Classification

Capitalized costs shall include:

- Direct labor costs of software engineering personnel

- Direct material costs specifically allocated to software development

- Third-party contractor expenses directly related to software development

- Allocated overhead costs meeting specific capitalization requirements

3 Exclusion Criteria

The following expenses shall NOT be capitalized:

- Preliminary project research costs

- Training and support expenses

- Maintenance and minor enhancement expenditures

- Costs incurred after software implementation

3. FINANCIAL ACCOUNTING TREATMENT

1 Capitalization Period

Software development costs shall be capitalized from the point of technological feasibility through the completion of development, not to exceed 24 consecutive months for any single project.

2 Amortization Schedule

Capitalized software development costs will be amortized using the straight-line method over the estimated useful life of the software, which shall not exceed five (5) years from the date of initial implementation.

3 Impairment Assessment

The Company shall conduct annual impairment assessments for capitalized software development costs, with immediate write-down required if:

- Technological obsolescence occurs

- Market conditions significantly change

- Projected future economic benefits no longer justify capitalized value

4. DOCUMENTATION AND RECORD KEEPING

1 Project Documentation

Each software development project subject to capitalization must maintain:

- Detailed project plan

- Time tracking records

- Cost allocation worksheets

- Technical feasibility documentation

- Management approval records

2 Audit Trail

The Company shall maintain comprehensive documentation supporting all capitalization decisions, including:

- Date of initial capitalization

- Cumulative capitalized costs

- Amortization calculations

-       Impairment assessment records

5. COMPLIANCE AND INTERNAL CONTROLS

1 Oversight

The Chief Financial Officer and Chief Technology Officer shall jointly review and approve all software development cost capitalization decisions quarterly.

2 External Verification

Independent third-party accounting firms shall be permitted to review capitalization records during standard financial audits.

6. DISCLAIMER AND LIMITATIONS

1 This document represents the Company's current accounting policy for software development cost capitalization and is subject to modification based on changes in accounting standards or business requirements.

2 All capitalization decisions remain subject to review and potential adjustment by the Company's independent auditors.

7. EXECUTION

Executed this 22nd day of January, 2024.

Dr. Elena Rodriguez

Chief Executive Officer

Nexus Intelligent Systems, Inc.

Michael Chen

Chief Technology Officer

Nexus Intelligent Systems, Inc.