

# **EMPLOYEE STOCK OPTION EXPENSE REPORT**

Summit Digital Solutions, Inc.

For the Period Ending December 31, 2023

Prepared January 9, 2024

## **1. EXECUTIVE SUMMARY**

This report details the employee stock option expenses and related accounting treatments for Summit Digital Solutions, Inc. ("Company") for the fiscal year ending December 31, 2023, in accordance with ASC 718 (Compensation - Stock Compensation) requirements.

## **2. STOCK OPTION PLAN OVERVIEW**

1. The Company maintains the 2016 Equity Incentive Plan ("Plan"), as amended and restated effective March 15, 2021, with a total of 5,000,000 shares reserved for issuance.

2. Outstanding Grants Summary:

- Total Options Outstanding: 2,875,000
- Weighted Average Exercise Price: \$12.45
- Weighted Average Remaining Contractual Term: 6.8 years
- Aggregate Intrinsic Value: \$24,437,500

## **3. EXPENSE CALCULATION METHODOLOGY**

1. Fair Value Determination

- Black-Scholes-Merton option pricing model utilized
- Risk-free rate: 3.85% (based on U.S. Treasury yields)
- Expected volatility: 45% (derived from peer group analysis)
- Expected term: 6.0 years
- Dividend yield: 0%

2. Expense Recognition

- Straight-line basis over the requisite service period
- Forfeitures accounted for as they occur
- Quarterly expense recognition schedule maintained

#### 4. CURRENT YEAR EXPENSE ANALYSIS

##### 1. Total Stock-Based Compensation Expense: \$4,875,000

- Research & Development: \$2,145,000
- Sales & Marketing: \$1,365,000
- General & Administrative: \$1,365,000

##### 2. Grant Activity

###### New Grants Issued in 2023:

- Number of Options: 750,000
- Weighted Average Grant Date Fair Value: \$5.85
- Total Fair Value: \$4,387,500

##### 3. Exercise Activity

- Options Exercised: 225,000
- Average Exercise Price: \$8.75
- Total Exercise Proceeds: \$1,968,750

#### 5. OUTSTANDING OPTION DETAILS

##### 1. Vesting Schedule Distribution

- Fully Vested: 875,000 options
- Vesting within 12 months: 625,000 options
- Vesting 13-36 months: 875,000 options
- Vesting 37+ months: 500,000 options

##### 2. Exercise Price Ranges

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Price Range	Options Outstanding	Weighted Avg Remaining Life
\$5.00-\$8.00	625,000	4.2 years
\$8.01-\$12.00	1,125,000	6.5 years
\$12.01-\$16.00	1,125,000	8.2 years

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## **6. TAX TREATMENT AND IMPLICATIONS**

### **1. Tax Deduction Analysis**

- Expected future tax deductions: \$35,875,000
- Deferred tax asset recognized: \$8,968,750
- Valuation allowance: None required

### **2. IRC Section 409A Compliance**

- All grants issued at or above fair market value
- Independent valuation obtained quarterly
- No discounted options outstanding

## **7. DISCLOSURE REQUIREMENTS**

### **1. Financial Statement Disclosures**

- Compliant with ASC 718 requirements
- Enhanced disclosures for significant grants
- Quarterly reporting requirements met

### **2. SEC Filing Requirements**

- Form 4 filings current for all executive grants
- Registration statements updated as required
- Proxy statement disclosures prepared

## **8. CONTROL PROCEDURES**

### **1. Grant Administration**

- Compensation Committee approval required
- Documentation maintained in Carta platform
- Monthly reconciliation procedures performed

### **2. Accounting Controls**

- Quarterly review by external auditors
- Internal control testing performed
- No material weaknesses identified

## **9. CERTIFICATION**

The undersigned hereby certifies that this report accurately reflects the employee stock option expenses and related matters of Summit Digital Solutions, Inc. for the period indicated, and has been prepared in accordance with applicable accounting standards and internal control procedures.

Dated: January 9, 2024

/s/ Margaret Chen

Margaret Chen

Corporate Controller

Summit Digital Solutions, Inc.

## **DISCLAIMER**

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