

IRS Audit Response Documentation - Fiscal Year 2022

Confidential Legal Document

Nexus Intelligent Systems, Inc.

PRELIMINARY STATEMENT

This document represents the comprehensive tax audit response documentation for Nexus Intelligent Systems, Inc. ("Company") pertaining to fiscal year 2022, prepared in direct response to Internal Revenue Service (IRS) Examination Notice dated January 15, 2024.

1. CORPORATE IDENTIFICATION AND JURISDICTIONAL DETAILS

1 Corporate Identification

- Legal Entity Name: Nexus Intelligent Systems, Inc.
- Delaware State Corporate Registration: 7634291
- Federal Employer Identification Number (FEIN): 85-4629103
- Fiscal Year End: December 31, 2022
- Primary Business Address: 1200 Technology Park Drive, San Jose, CA 94043

2 Corporate Structure

The Company is a Delaware C-Corporation organized under standard venture capital capitalization, with multiple equity classes including Preferred Series A and Series B stock issued to institutional investors.

2. AUDIT SCOPE AND DOCUMENTATION OVERVIEW

1 Audit Notification Details

- IRS Examination Notice Number: 2024-CA-87621
- Examination Period: January 1, 2022 - December 31, 2022
- Primary Audit Focus Areas:
 - a) Research and Development Tax Credit Calculations
 - b) Stock-Based Compensation Reporting
 - c) Revenue Recognition Methodology
 - d) Transfer Pricing Documentation

2 Documentation Compilation Methodology

All documentation has been compiled utilizing:

- Comprehensive financial records
- Audited financial statements
- Internal accounting documentation
- Third-party verification materials
- Contemporaneous supporting evidence

3. TAX CREDIT AND INCENTIVE DOCUMENTATION

1 Research and Development Tax Credit

Total Qualified Research Expenditures (QREs) for FY 2022: \$2,347,619

Detailed Breakdown:

- Wages for Qualified Research Activities: \$1,542,003
- Contracted Research Expenses: \$612,416
- Supplies and Materials: \$193,200

2 Calculation Methodology

R&D Tax Credit calculated using:

- Regular Credit Method
- Alternative Simplified Credit (ASC) Approach
- Comprehensive documentation of qualified research activities

4. REVENUE RECOGNITION FRAMEWORK

1 Revenue Streams

- Enterprise AI Services: 68% of total revenue
- Predictive Maintenance Platforms: 22% of total revenue
- Consulting Services: 10% of total revenue

2 Accounting Methodology

- ASC 606 Compliance
- Performance Obligation Recognition
- Deferred Revenue Accounting Protocols

5. STOCK-BASED COMPENSATION REPORTING

1 Equity Compensation Overview

- Total Equity Compensation Expense: \$1,276,450
- Equity Instruments Issued: Stock Options and Restricted Stock Units
- Valuation Methodology: Black-Scholes Option Pricing Model

2 Compliance Verification

- IRC Section 409A Compliance
- Contemporaneous Valuation Reports
- Independent Third-Party Verification

6. TRANSFER PRICING DOCUMENTATION

1 Intercompany Transaction Analysis

- No material cross-border transactions during fiscal year
- Arm's Length Pricing Principles Applied
- Comprehensive Transfer Pricing Study Conducted

7. LEGAL REPRESENTATIONS AND WARRANTIES

1 Corporate Representations

The undersigned hereby certifies that:

- All provided documentation is true and accurate
- No intentional misrepresentation exists
- Full disclosure of all material tax events has been provided

8. SIGNATURE BLOCK

Dr. Elena Rodriguez

Chief Executive Officer

Nexus Intelligent Systems, Inc.

Michael Chen

Chief Financial Officer

Nexus Intelligent Systems, Inc.

Date: January 22, 2024

9. DISCLAIMER

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