

# **Employee Stock Option Tax Treatment Records**

## **Confidential Document**

**Nexus Intelligent Systems, Inc.**

Delaware Corporation

### **1. PRELIMINARY STATEMENTS**

1 This document represents the comprehensive tax treatment records for employee stock option grants issued by Nexus Intelligent Systems, Inc. (hereinafter "the Company") as of January 22, 2024.

2 These records are prepared in accordance with Internal Revenue Code Section 409A and applicable Treasury Regulations governing equity compensation arrangements.

### **2. DEFINITIONS**

1 "Qualified Stock Options" shall mean incentive stock options (ISOs) meeting requirements under IRC 422.

2 "Non-Qualified Stock Options" (NSOs) shall mean stock options not meeting ISO qualification standards, taxable as ordinary compensation income.

3 "Grant Date" refers to the specific date upon which stock options are formally authorized and communicated to eligible employees.

### **3. STOCK OPTION GRANT SUMMARY**

#### **1 Total Outstanding Options**

- Total Authorized Option Pool: 1,250,000 shares
- Currently Issued Options: 687,425 shares
- Remaining Unissued Options: 562,575 shares

#### **2 Option Classification**

- Qualified Stock Options: 412,455 shares (60%)
- Non-Qualified Stock Options: 274,970 shares (40%)

### **4. TAX TREATMENT METHODOLOGY**

### 1 Qualified Stock Options (ISOs)

- No taxable event occurs upon grant or exercise
  - Alternative Minimum Tax (AMT) potential adjustment required
  - Capital gains treatment if holding periods satisfied
- a) Two-year holding from grant date
- b) One-year holding from exercise date

### 2 Non-Qualified Stock Options (NSOs)

- Ordinary income recognition at exercise
- Taxable spread calculated as:  
(Fair Market Value at Exercise - Grant Price) Exercised Shares
- Additional capital gains/losses upon subsequent sale

## **5. COMPLIANCE DOCUMENTATION**

### 1 Regulatory Compliance

- Full compliance with SEC Rule 10b5-1
- 409A valuation performed annually by independent third-party appraiser
- Consistent with GAAP accounting standards

### 2 Reporting Requirements

- Annual Form W-2 reporting for NSO compensation
- Form 3921 filed for ISO transactions
- Detailed tracking of individual option holder tax events

## **6. VALUATION METHODOLOGY**

### 1 Option Pricing Determination

- Most Recent 409A Valuation: \$14.75 per common share
- Valuation Date: December 15, 2023
- Performed by: Andersen Valuation Services
- Methodology: Weighted Average Cost of Capital (WACC)

### 2 Fair Market Value Calculation

- Discounted Cash Flow Analysis

- Comparable Company Assessment
- Venture Capital Pricing Metrics

## **7. RISK MITIGATION PROVISIONS**

### **1 Tax Indemnification**

- Employees solely responsible for individual tax reporting
- Company provides informational documentation only
- No guarantee of specific tax outcomes

### **2 Compliance Representations**

- Options granted consistent with board-approved compensation plans
- Full disclosure of potential tax implications
- Recommendation for independent tax consultation

## **8. EXECUTION**

1 This document represents management's good faith representation of stock option tax treatment as of the stated date.

2 Subject to annual review and potential modification.

## **9. CONFIDENTIALITY STATEMENT**

1 This document contains proprietary and confidential information.

2 Unauthorized reproduction or distribution strictly prohibited.

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### **Executed By:**

Dr. Elena Rodriguez

Chief Executive Officer

Nexus Intelligent Systems, Inc.

Date: January 22, 2024