

# **EMPLOYEE STOCK OPTION POOL FINANCIAL IMPACT ANALYSIS**

**DeepShield Systems, Inc.**

**Confidential & Privileged**

**Effective Date: January 11, 2024**

## **1. EXECUTIVE SUMMARY**

This document analyzes the financial impact of DeepShield Systems, Inc.'s (the "Company") employee stock option pool, including current allocation, dilution effects, and projected financial implications. This analysis is prepared in accordance with Delaware General Corporation Law and the Company's 2016 Equity Incentive Plan, as amended.

## **2. OPTION POOL STRUCTURE**

### **1. \*\*Authorized Pool Size\*\***

- Total authorized option pool: 12,500,000 shares
- Percentage of fully diluted capitalization: 15%
- Reserve adjustment post-Series C: Additional 2,500,000 shares
- Current available pool: 4,875,000 shares

### **2. \*\*Vesting Structure\*\***

- Standard 4-year vesting schedule
- 1-year cliff for 25% initial vest
- Monthly vesting thereafter (1/48th per month)
- Accelerated vesting provisions for key executives per Board approval

## **3. CURRENT ALLOCATION STATUS**

### **1. \*\*Issued Options\*\***

- Total options granted: 7,625,000 shares
- Vested options: 4,125,000 shares
- Unvested options: 3,500,000 shares
- Exercised options: 1,875,000 shares

## 2. **\*\*Department Distribution\*\***

- Engineering: 45% (3,431,250 shares)
- Sales & Marketing: 20% (1,525,000 shares)
- Research & Development: 15% (1,143,750 shares)
- Executive Team: 12% (915,000 shares)
- General & Administrative: 8% (610,000 shares)

## 4. **FINANCIAL IMPLICATIONS**

### 1. **\*\*Stock-Based Compensation Expense\*\***

- FY2023 recorded expense: \$4,875,000
- Projected FY2024 expense: \$6,250,000
- Unrecognized compensation cost: \$12,375,000
- Weighted average recognition period: 2.7 years

### 2. **\*\*Exercise Price Analysis\*\***

- Weighted average exercise price: \$8.75
- Latest 409A valuation price: \$12.50
- Potential proceeds from full exercise: \$66,718,750

## 5. **DILUTION IMPACT**

### 1. **\*\*Current Capitalization Effect\*\***

- Pre-dilution shares outstanding: 83,333,333
- Fully diluted shares: 95,833,333
- Dilution impact on current stockholders: 15%

### 2. **\*\*Future Funding Considerations\*\***

- Reserved pool for future hires: 4,875,000 shares
- Projected additional dilution: 5.1%
- Anti-dilution provisions: Broad-based weighted average

## 6. **TAX IMPLICATIONS**

### 1. **\*\*Corporate Tax Treatment\*\***

- IRC Section 409A compliance maintained
- Annual valuation updates scheduled
- Deferred tax asset value: \$3,125,000

2. **\*\*Employee Tax Considerations\*\***

- ISO qualification requirements monitored
- NSO tax withholding procedures established
- ESPP coordination guidelines implemented

## **7. ACCOUNTING TREATMENT**

1. **\*\*Recognition Methods\*\***

- ASC 718 compliance procedures
- Black-Scholes valuation model
- Forfeiture rate assumption: 8%

2. **\*\*Financial Statement Impact\*\***

- Balance sheet equity component
- Quarterly expense recognition
- Disclosure requirements met

## **8. RISK FACTORS**

1. **\*\*Operational Risks\*\***

- Option pool adequacy for recruitment
- Retention impact assessment
- Competitive market positioning

2. **\*\*Compliance Risks\*\***

- SEC reporting requirements
- State securities regulations
- Internal control procedures

## **9. RECOMMENDATIONS**

1. **\*\*Pool Management\*\***

- Maintain minimum 3% available pool
- Quarterly grant review process
- Annual pool size assessment

2. **\*\*Administrative Actions\*\***

- Update equity management system
- Enhance documentation procedures
- Regular stockholder communications

**10. CERTIFICATION**

The undersigned hereby certifies that this analysis accurately reflects the Company's employee stock option pool status and financial impact as of the Effective Date.

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DEEPSHIELD SYSTEMS, INC.

**By:** \_

Robert Kessler

Chief Financial Officer

Date: January 11, 2024

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