

EMPLOYEE STOCK OPTION PLAN ANALYSIS

Polar Dynamics Robotics, Inc.

Delaware Corporation

Effective Date: January 11, 2024

1. EXECUTIVE SUMMARY

This analysis examines the current Employee Stock Option Plan ("ESOP") of Polar Dynamics Robotics, Inc. (the "Company") implemented pursuant to the 2018 Equity Incentive Plan, as amended and restated effective March 15, 2023 (the "Plan"). This document analyzes the Plan's compliance with applicable securities laws, tax implications, and potential risks in the context of the Company's Series C funding status.

2. PLAN OVERVIEW

1. The Plan authorizes the issuance of up to 2,500,000 shares of Common Stock, representing approximately 15% of the Company's fully diluted capitalization as of December 31, 2023.

2. Current allocation status:

- Options Granted: 1,875,000 shares
- Options Exercised: 425,000 shares
- Options Terminated/Cancelled: 150,000 shares
- Available Pool: 775,000 shares

3. Exercise Price Framework:

- Initial Public Offering (IPO) prior grants: \$2.15 - \$4.75 per share
- Series B period grants: \$6.25 - \$8.50 per share
- Series C period grants: \$12.75 - \$15.00 per share

3. LEGAL COMPLIANCE ANALYSIS

1. Securities Law Compliance

- Rule 701 exemption properly utilized for private company equity compensation
- Form S-8 registration requirements identified for potential IPO scenario
- State blue sky law compliance verified for multi-state operations

2. IRC Section 409A Compliance

- Independent valuation obtained every 12 months
- Latest 409A valuation dated November 15, 2023
- All grants issued at or above fair market value
- Safe harbor requirements satisfied

3. ISO/NSO Requirements

- Incentive Stock Option (ISO) limitations observed
- \$100,000 annual vesting limitation properly tracked
- Non-Statutory Option (NSO) documentation compliant
- Required tax withholding procedures implemented

4. VESTING STRUCTURES

1. Standard Vesting Schedule

- Four-year vesting period
- One-year cliff for 25% initial vesting
- Monthly vesting thereafter
- Full acceleration for key executives upon change in control

2. Early Exercise Provisions

- Permitted for senior management grants
- Subject to Company repurchase right
- Proper 83(b) election procedures implemented

5. ADMINISTRATIVE PROCEDURES

1. Grant Processing

- Board or Compensation Committee approval required
- Standard documentation package implemented
- Electronic acceptance system utilized
- Compliance tracking system maintained

2. Exercise Procedures

- Cashless exercise provisions implemented
- Net exercise allowed for NSOs
- Stock appreciation rights available for senior management
- Electronic exercise platform maintained

6. RISK ASSESSMENT

1. Identified Risks

- Option overhang impact on future funding rounds
- Potential dilution effects on existing shareholders
- 409A compliance maintenance requirements
- Securities law compliance in multiple jurisdictions

2. Mitigation Measures

- Quarterly review of grant procedures
- Annual legal compliance audit
- Regular 409A valuations
- Documentation standardization

7. RECOMMENDATIONS

1. Immediate Actions

- Update Plan documentation for Series D preparation
- Implement enhanced tracking for ISO/NSO limits
- Review acceleration provisions for key employees
- Standardize change in control provisions

2. Long-term Planning

- Prepare for potential IPO requirements
- Establish equity refresh program
- Review international employee participation
- Enhance stockholder communication procedures

8. CERTIFICATION

This analysis has been prepared by the undersigned as of January 11, 2024, based on review of all relevant documentation and current legal requirements.

/s/ Katherine Wells

Katherine Wells

Chief Financial Officer

Polar Dynamics Robotics, Inc.

DISCLAIMER

This analysis is for internal use only and should not be relied upon without independent legal review. The information contained herein is subject to change based on amendments to applicable laws, regulations, or Company policies. This document does not constitute legal advice and should be reviewed by qualified legal counsel before any action is taken based on its contents.