

# **Section 382 Limitation Calculation**

## **Confidential Document**

Prepared in Connection with Potential Ownership Change Analysis

Nexus Intelligent Systems, Inc.

As of January 22, 2024

## **1. PRELIMINARY STATEMENT**

### **1 Purpose of Calculation**

This document represents a comprehensive analysis of potential net operating loss (NOL) limitations pursuant to Section 382 of the Internal Revenue Code, specifically addressing the potential impact of an ownership change for Nexus Intelligent Systems, Inc. (the "Company").

### **2 Scope of Analysis**

The calculation herein evaluates the Company's historical net operating losses, potential limitation triggers, and projected tax attribute preservation strategies based on current corporate capitalization and anticipated equity transactions.

## **2. DEFINITIONS**

1 "Ownership Change" shall mean any transaction or series of transactions resulting in a cumulative change of ownership exceeding 50% as defined under Section 382 of the Internal Revenue Code.

2 "Base Period" refers to the thirty-six (36) month period preceding the potential ownership change date.

3 "Annual Limitation" means the maximum amount of pre-change losses that may be utilized in any post-change taxable year, calculated pursuant to IRC Section 382 methodologies.

## **3. NOL CALCULATION METHODOLOGY**

### **1 Existing Net Operating Losses**

As of December 31, 2023, the Company's accumulated net operating losses are estimated at \$4,750,000, comprised of:

- Research and Development Loss Carryforwards: \$2,350,000

- Operating Loss Carryforwards: \$2,400,000

## 2 Limitation Calculation Parameters

- Long-Term Tax-Exempt Rate (as of calculation date): 3.42%
- Company Valuation Pre-Transaction: \$24,500,000
- Projected Annual Section 382 Limitation: Approximately \$837,300

## 4. OWNERSHIP CHANGE ANALYSIS

### 1 Potential Triggering Events

The following potential transactions have been identified as potential ownership change triggers:

- a) Pending Series B Preferred Stock Financing
- b) Potential Employee Stock Option Exercise
- c) Anticipated Venture Capital Investment Rounds

### 2 Risk Mitigation Strategies

- Implement careful tracking of ownership percentage changes
- Conduct pre-transaction Section 382 modeling
- Utilize protective tax planning mechanisms

## 5. LIMITATIONS AND QUALIFICATIONS

### 1 Disclaimer

This calculation represents a good faith estimate based on currently available information. Actual results may vary based on subsequent corporate transactions, IRS interpretations, and changes in tax regulations.

### 2 Professional Reliance

This analysis has been prepared utilizing standard professional tax modeling techniques and should not be considered definitive tax advice.

## 6. CONFIDENTIALITY PROVISIONS

### 1 Restricted Use

This document is strictly confidential and intended solely for internal corporate planning and potential transaction due diligence purposes.

## 2 Distribution Limitations

Unauthorized reproduction or distribution of this document is expressly prohibited.

## **7. EXECUTION**

Prepared By:

[Signature Redacted]

Corporate Tax Strategy Department

Nexus Intelligent Systems, Inc.

Date of Preparation: January 22, 2024

## **8. CERTIFICATION**

I hereby certify that the foregoing calculation has been prepared with professional care and represents a reasonable interpretation of the Company's potential Section 382 limitations based on current information.

—

Michael Chen

Chief Technology Officer

Nexus Intelligent Systems, Inc.