

Tax Accounting Method Change Documentation

1. PRELIMINARY STATEMENT

This Tax Accounting Method Change Documentation ("Document") is executed by Nexus Intelligent Systems, Inc., a Delaware corporation with principal offices at 1200 Technology Park Drive, San Jose, California 95134 (the "Company"), effective as of January 22, 2024.

2. DEFINITIONS

1 "Accounting Method" shall mean the systematic approach utilized by the Company for recognizing and reporting financial transactions and tax treatments.

2 "Change Request" refers to the formal process of modifying existing tax accounting procedures as outlined in this document.

3 "Applicable Regulations" means the relevant provisions of the Internal Revenue Code, Treasury Regulations, and Financial Accounting Standards Board (FASB) guidelines.

3. BACKGROUND AND PURPOSE

1 The Company has determined that its current tax accounting methodology requires modification to:

- a) Enhance financial reporting accuracy
- b) Optimize tax efficiency
- c) Align with evolving enterprise technology sector accounting standards

2 Specific motivations for the accounting method change include:

- Improved revenue recognition for complex AI service contracts
- More precise allocation of research and development expenditures
- Enhanced treatment of intellectual property development costs

4. PROPOSED ACCOUNTING METHOD CHANGES

1 Revenue Recognition Methodology

The Company will transition from a completed contract method to a percentage-of-completion approach for enterprise AI service agreements, effective for fiscal year 2024.

2 Research and Development Expense Capitalization

Implementation of a more granular capitalization strategy for machine learning platform development costs, with:

- Increased tracking of direct labor and material costs
- Refined allocation of overhead expenses related to R&D initiatives
- Standardized amortization periods for capitalized development expenses

3 Intellectual Property Cost Treatment

Modification of accounting treatment for internally developed software and algorithmic innovations, including:

- Capitalization of qualifying development expenses
- Establishment of consistent amortization schedules
- Enhanced documentation of development lifecycle stages

5. FINANCIAL IMPACT ANALYSIS

1 Projected Financial Implications

- Estimated annual tax efficiency improvement: 3.2-4.7%
- Potential one-time adjustment to retained earnings: Approximately \$425,000
- Expected reduction in effective tax rate: 0.5-0.8 percentage points

2 Compliance Considerations

The proposed changes have been reviewed to ensure full compliance with:

- Internal Revenue Code Section 446
- FASB Accounting Standards Codification
- Generally Accepted Accounting Principles (GAAP)

6. IMPLEMENTATION TIMELINE

1 Approval and Documentation

- Board of Directors Review: February 15, 2024
- External Auditor Consultation: March 1, 2024
- Final Documentation Submission: March 15, 2024

2 Phased Implementation

- Initial Transition Period: Q2 2024
- Full Implementation: Fiscal Year 2024 Reporting Cycle

7. LEGAL DISCLAIMERS

1 This document represents a formal change request and does not constitute a binding legal agreement until approved by the Company's Board of Directors and relevant tax authorities.

2 The Company reserves the right to modify or withdraw this proposed accounting method change based on regulatory guidance or strategic considerations.

8. AUTHORIZATION

Executed by:

Dr. Elena Rodriguez

Chief Executive Officer

Nexus Intelligent Systems, Inc.

Date: January 22, 2024

Michael Chen

Chief Financial Officer

Nexus Intelligent Systems, Inc.

Date: January 22, 2024