PHAT CORPORATION, INC.

Summary of Equity-Based Compensation Alternatives

This Summary provides an overview of the advantages and disadvantages of PHAT Corporation, Inc. (the "***Company***") granting ISOs, NSOs, RSAs and Cash-Settled RSUs to compensate its employees and other service providers.[1] The "***Life Cycle Comparison of Certain Equity Awards***," which is attached hereto as **Exhibit A** provides further detail relating to the general characteristics, tax ramifications and design considerations of each type of award.

	ISOs	NSOs	RSAs	Cash-Settled RSUs
Pros:	• Favorable tax treatment • Company has no withholding obligation (even upon a disqualifying disposition) • Increased upside for companies the achieve substantial growth • May be exercised at the election of the holder • Greater incentive to increase FMV of Company stock than full value awards	• Increased upside for companies that achieve substantial growth • More flexible that ISOs • May be granted to non-employee directors and consultants • May be exercised (and taxation triggered) at the election of the holder • Employer entitled to a deduction at the time of exercise • Greater incentive to increase FMV of Company stock than full value awards	• Less equity dilution than stock options • Greater retentive value than stock options because RSAs maintain some value even if FMV of Company stock declines • Holder typically pays nothing for award • For stock with little or no value on grant date and/or high growth potential, ability to make Code Section 83(b) election may offer substantial tax benefits • Independent valuation of Company's securities is not required • Holder is beneficial owner of Company stock at the time of	• Less equity dilution than stock options • Greater retentive value than stock options because RSUs maintain some value even if FMV of Company stock declines • Holder pays nothing for award • Company may allow deferred settlement (and taxation), subject to Code Section 409A • Company may determine whether it will grant dividend equivalents • Less administrative burden than RSAs and stock options • Employer entitled to a deduction when holder

[1] Legend: **AMT** = Alternative Minimum Tax; **FMV** = Fair Market Value; **ISO** = Incentive Stock Option; **NSO** = Nonqualified Stock Option; **RSA** = Restricted Stock Award; **RSU** = Restricted Stock Unit; **Code** = Internal Revenue Code of 1986, as amended

	ISOs	NSOs	RSAs	Cash-Settled RSUs
			grant, aligning interests with shareholders • Employer entitled to a deduction when holder recognizes income	recognizes income • Liquidity of Company's stock does not affect ability to pay taxes and/or exercise price
Cons:	• Greater equity dilution than full value awards • Exercise price must be paid, or net-exercise procedure implemented, upon exercise • Lack of certainty as to whether the net exercise of an ISO causes a disqualifying disposition • No employer compensatory deduction (unless there is a disqualifying disposition) • Complicated tax treatment and rigid requirements • Can be granted only to employees • Limited retentive value if FMV of Company stock does not increase	• Greater equity dilution than full value awards • Taxes and exercise price must be paid, or net-exercise and net-withholding procedure implemented, upon exercise • Company has obligation to withhold taxes upon exercise • Requires recent valuation of the underlying stock in accordance with Code Section 409A • Limited retentive value if FMV of Company stock does not increase	• Taxes due at vesting (or grant if Code Section 83(b) election is made) • If Code Section 83(b) election is made and stock is forfeited, no refund of taxes paid • Increased administrative burden to hold, track and record shares and track Code Section 83(b) elections • Less upside potential than stock options	• Imposes cash drain on the Company • No ability to make a Code Section 83(b) election like RSAs • Must be structured to comply with or be exempt from Code Section 409A • Less upside potential than stock options

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Life Cycle Comparison of Certain Equity Awards

Scenario: The below Life Cycle Comparison of Certain Equity Awards assumes that the Company will grant an award subject to a four-year ratable vesting schedule and the vesting of the award will accelerate in full upon a change in control of the Company.

Subject/Topic	ISOs	NSOs	RSAs	Cash-Settled RSUs
GENERAL CHARACTERISTICS:				
Value of Award:	Appreciation-only award. This means the participant receives the difference between the exercise price and the FMV of the underlying stock as of the date the underlying stock is sold.	Same as ISOs.	Full-value award. This means the participant receives the difference between $0.00 and the FMV of the underlying stock as of the date the underlying stock is sold.	RSUs are full-value awards.
Type of Award:	Share-based award only.	Share-based award only.	Share-based award only.	Cash-based award.
Impact on Shareholder Dilution:	Compared to full-value awards, ISOs are more dilutive because, due to the "at the money" strike price associated with the grant of an ISO, more shares are typically required in order for the recipient to have a stated level of perceived value.	Same as ISOs.	Compared to appreciation-only awards, RSAs are less dilutive (assuming any purchase element is $0.00 or par value) because, as a full-value award, RSAs have a direct correlation between the FMV of the award on the date of grant and the perceived value of the RSA by the recipient.	No equity dilution since the RSU is settled in cash.
Cash Outlay required by the Participant:	Yes, unless a net exercise feature is implemented. An alternative design feature is for the Company to loan the	Same as ISOs.	Generally no, though a payment equal to par value could be required under the Company's Articles of Incorporation or	No.

Subject/Topic	ISOs	NSOs	RSAs	Cash-Settled RSUs
	employee money to help him or her finance the exercise. To comply with applicable federal income tax laws, the loan would have to be structured to be at least 50% recourse vis-à-vis the employee.		Bylaws.	
TAX RAMIFICATIONS:				
Date of Grant (Employee):	No federal income tax consequence to the optionee or the Company.	Same as ISOs.	No federal income tax consequence to the participant or the Company unless the participant timely filed an 83(b) election within 30 days from the date the RSA was granted to him or her. If instead the participant timely filed an 83(b) election, then the participant would recognize ordinary taxable income equal to the difference between the FMV of the shares on the date of grant and the price paid, if any. The Company would then have a corresponding withholding obligation and a corresponding compensation deduction.	Assuming there is a vesting schedule, no federal income tax to the participant on the date of grant.
Date of Vesting (Employee):	No federal income tax consequence to the optionee or the Company.	Same as ISOs.	If no 83(b) election was timely filed within 30 days from the date of grant, the participant would have compensation	Absent a deferral arrangement, a participant holding RSUs would have compensation income (taxed at ordinary

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			income (taxed at ordinary rates) equal to the difference between the FMV of the shares on the date of vesting and the price paid, if any. The Company would have a corresponding withholding obligation and a corresponding compensation deduction. If instead the participant timely filed an 83(b) election, then vesting would trigger no federal income tax consequence to the participant or the Company.	rates) equal to the difference between the FMV of the award on the date of vesting and the price paid, if any. The Company would have a corresponding withholding obligation and a corresponding compensation deduction.
Date of Exercise (Employee):	No federal income tax consequence to the optionee or the Company. However, the "spread" under an ISO – *i.e.*, the difference between the FMV of the shares at exercise and the exercise price – would be classified as an item of adjustment in the year of exercise for purposes of AMT. In order to avoid the application of AMT, the optionee would have to sell the underlying shares during the same calendar year that the ISOs were exercised. However, such a sale within the same calendar year would constitute a "disqualifying disposition" (defined below).	The optionee would have compensation income (taxed at ordinary rates) equal to the difference between the option's exercise price and the FMV of the underlying shares on the date of exercise. The Company would have a corresponding withholding obligation and a corresponding compensation deduction.	Not an applicable concept.	Not an applicable concept.

Subject/Topic	ISOs	NSOs	RSAs	Cash-Settled RSUs
	The Company would have no withholding obligation and would not be entitled to any compensation deduction.			
Date of Sale (Employee):	The tax consequences depend upon whether the sale is a "disqualifying disposition" (*i.e.,* no disqualifying disposition if the stock is held for at least: (i) 2 years from the date of grant AND (ii) 1 year from the date of exercise). If the sale is not a disqualifying disposition, then the optionee would recognize long-term capital gain (or loss) equal to the difference between the sale price of the shares and the exercise price. The Company would have no corresponding withholding obligation and would not be entitled to any corresponding deduction. If instead the sale is a disqualifying disposition, the optionee would generally have compensation income (taxed at ordinary rates) equal to the difference between the exercise price and the FMV of the underlying stock at the time of	Any gain or loss would be short- or long-term capital gain or loss, depending upon whether the shares were held for one year following exercise.	Same as NSOs with respect to the one-year holding period.	Not an applicable concept.

Subject/Topic	ISOs	NSOs	RSAs	Cash-Settled RSUs
	exercise (and the Company would be entitled to a corresponding deduction). Such compensation income would be added to the stock's basis to determine any capital gain (or loss) that would have to be recognized on the disqualifying disposition. The Company would have no withholding obligation, even if there was a disqualifying disposition.			
CERTAIN DESIGN FEATURES:				
Vesting Provisions:	A time-based or performance-based vesting schedule could be used, or both. In setting the vesting schedule, consideration should be given to the recognition of compensation expense pursuant to a Black Scholes formula, and whether the vesting schedule should be set to help reduce the "fair value" of the award as of the date of grant (thus reducing the amount of compensation expense recognized over time). If a performance-based vesting schedule is used that contains a "market condition," then a Monte Carlo simulation (instead of a Black Scholes formula) will likely	Same as ISOs.	Same as ISOs, except that the fair value of an RSA would be equal to the FMV of the award on the date of grant and the vesting schedule would affect the period over which the compensation expense would be recognized.	Same as RSAs.

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	be used to determine the fair value of the award and any resulting compensation expense.			
Termination Provisions:	Upon a termination, all unvested equity would be immediately forfeited. Alternatively, the option could be structured so that vesting is partially or fully accelerated if: (i) the optionee's employment is terminated by the optionee for "good reason," (ii) the optionee's employment is terminated by the Company for a reason other than "cause," and/or (iii) a change in control transaction is consummated. Additionally, the acceleration of vesting upon disability and/or death is a possible design feature. Also, the option could be structured so that both unvested and vested options are forfeited for no additional consideration if the optionee is terminated for "cause." And if the option was previously exercised as of the date a termination for cause is effectuated, then the option could provide for the repurchase of the underlying stock at the lesser of: (i) the then FMV or (ii) the	Same as ISOs.	Same as ISOs, except for the exercise element.	Same as ISOs, except that no equity repurchase concept applies because RSUs are settled in cash, however, a clawback of cash proceeds could be implemented.

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	exercise price. Finally, the forfeiture and repurchase discussed in the above paragraph could equally be triggered if the optionee violates any non-competition or non-solicitation agreement.			
Repurchase Rights, Rights of First Refusal, Drags & Tags:	Typically these issues are addressed in the shareholders' agreement. But if no shareholders' agreement exists, then such issues are addressed in the granting documentation.	Same as ISOs.	Same as ISOs.	Same as ISOs.
Change in Control:	Generally participate in the same manner as shareholders (assuming the option is exercised). To create a disqualifying disposition so that the optionee and Company owe less in employment taxes (which in turn generally results in shareholders receiving more sale proceeds), a design feature is to require an automatic exercise prior to consummation of the change in control. As another design feature, an automatic cash-out feature could be implemented for all vested but unexercised options.	Same as ISOs.	Same as ISOs, except there would be no automatic exercise feature.	Same as RSAs.

Subject/Topic	ISOs	NSOs	RSAs	Cash-Settled RSUs
Initial Public Offering:	Consider whether to have vesting accelerated upon the effectiveness of an S-1 Registration Statement or upon a reverse merger into a public shell corporation. Consider whether, upon the occurrence of an IPO, an optionee should have co-registration rights so that he or she can sell his or her pro rata shares in the open market to the extent other shareholders of the Company are participating in the IPO by selling shares.	Same as ISOs.	Same as ISOs.	Same as ISOs, except co-registration rights are not applicable.

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83(b) Election Example

The following example compares the tax consequences of receiving restricted stock with and without an 83(b) election. **Please note: that this document and the examples contained herein provide for hypothetical tax rates, do NOT represent tax advice and shall NOT be considered tax advice from the employer. You should consult your tax counsel for any such advice.**

Assumed Facts:

- Employee receives 10,000 shares of restricted stock on February 1, 2021, when the fair market value per share was $10.00.
- The award vests 100% on the two-year anniversary of the date of grant (*i.e.*, no interim or graded vesting).
- When the 10,000 shares vest on January 31, 2023, the fair market value per share is $30.00.
- Employee then sells the shares for $400,000.00 in May 2024, when the fair market value per share is $40.00.

Assuming an 83(b) Election Is Filed with 30 Days from the Date of Grant:

Ordinary income upon grant on 2/1/21:	$ 100,000.00
Ordinary income tax on 2/1/21 (40% x $100,000):	$ 40,000.00
Ordinary income upon vesting 1/31/23:	$ 0.00
Capital gain at sale 5/24 ($400,000 - $100,000):	$ 300,000.00
Capital gains tax on 5/24 (23.8% x $300,000):	$ 71,400.00
Aggregate Tax on Award:	**$ 111,400.00**

Assuming NO 83(b) Election is Filed:

Ordinary income upon grant on 2/1/21:	$ 0.00
Ordinary income upon vesting 1/31/23:	$ 300,000.00
Ordinary income tax 1/31/23 (40% x $300,000):	$ 120,000.00
Capital gain at sale 5/24 ($400,000 - $300,000):	$ 100,000.00
Capital gains tax on 5/24 (23.8%x $100,000):	$ 23,800.00
Aggregate Tax on Award:	**$ 143,800.00**

In the above example, the tax cost to Employee for failing to make an 83(b) election is $32,400 ($143,800 - $111,400). In sum, the greater the increase in the value of the shares during the vesting schedule, the greater the tax cost to Employee for failing to make an 83(b) election.

However, when determining whether to make an 83(b) election, Employee must carefully consider the risk that Employee's employment could be terminated prior to full vesting of the Award. For example, if Employee files an 83(b) election but his or her employment is terminated prior to vesting, then Employee will forfeit all of the shares and, using the above example, will have paid $40,000 in tax for which he or she generally cannot claim a refund.

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