

FINANCIAL ADJUSTMENTS MEMO

FINANCIAL ADJUSTMENTS MEMORANDUM

To: Deal Team

From: Finance Department

Date: December 23, 2024

Re: Purchase Price Adjustments - StartupXYZ Acquisition

Following our review in connection with the **Document: Due Diligence Report**, we recommend the following adjustments to the purchase price as set forth in **Exhibit A - Financial Terms** of the **Document: Acquisition Agreement**.

1. WORKING CAPITAL ADJUSTMENT

Target working capital: \$1,200,000

Estimated closing working capital: \$980,000

Adjustment: (\$220,000)

2. DEBT ADJUSTMENT

Previously disclosed debt: \$1,500,000

Additional identified debt: \$175,000 (capital lease obligations)

Adjustment: (\$175,000)

3. REVENUE RECOGNITION ADJUSTMENT

Deferred revenue requiring restatement: \$340,000

Impact on EBITDA: (\$85,000)

Implied value adjustment (at 15x): (\$1,275,000)

4. CONTINGENT LIABILITY RESERVE

As noted in **Document: Risk Assessment Memo**, we recommend establishing reserves for:

- Customer concentration risk: \$500,000

- Integration contingency: \$800,000

Total reserve: \$1,300,000 (to be held in escrow per **Exhibit C - Earnout Terms**)

5. SUMMARY OF ADJUSTMENTS

Original Purchase Price: \$45,000,000

Working Capital Adjustment: (\$220,000)

Debt Adjustment: (\$175,000)

Revenue Recognition: (\$1,275,000)

Adjusted Purchase Price: \$43,330,000

Plus escrow reserve: \$1,300,000

Total Cash Required at Closing: \$44,630,000

6. PAYMENT STRUCTURE

As revised from **Document: Acquisition Agreement** Section 2.2:

(a) Cash at closing: \$28,330,000 (adjusted)

(b) Stock consideration: \$10,000,000 (per **Exhibit B - Stock Valuation**)

(c) Earnout: \$5,000,000 (unchanged, per **Exhibit C - Earnout Terms**)

(d) Escrow: \$1,300,000 (18-month release schedule)

These adjustments have been discussed with Seller's representatives and are subject to final negotiation.

Please refer to **Document: Closing Checklist** for timeline and requirements.