

DUE DILIGENCE REPORT

CONFIDENTIAL DUE DILIGENCE REPORT

Prepared for: TechCorp Industries, Inc.

Subject: StartupXYZ LLC

Date: December 20, 2024

Prepared by: Morrison & Associates, LLP

EXECUTIVE SUMMARY

This report summarizes our findings from the due diligence investigation of StartupXYZ LLC in connection with the proposed acquisition described in the **Document: Acquisition Agreement**.

1. FINANCIAL REVIEW

- 1.1 Revenue for FY2024: \$12.3 million (growth of 45% YoY)
- 1.2 EBITDA: \$2.1 million (17% margin)
- 1.3 Cash position: \$3.2 million as of November 30, 2024
- 1.4 Outstanding debt: \$1.5 million (detailed in **Exhibit A - Financial Terms** of the Acquisition Agreement)

KEY FINDING: Financial statements are materially accurate. Minor adjustments recommended as noted in **Document: Financial Adjustments Memo**.

2. INTELLECTUAL PROPERTY

- 2.1 StartupXYZ holds 12 patents related to AI/ML technology
- 2.2 All patents verified as valid per **Document: IP Certification Letter**
- 2.3 No pending litigation affecting IP (confirmed in **Document: Legal Opinion Letter**)
- 2.4 Full IP inventory in **Schedule 1 - IP Assets** of the Acquisition Agreement

3. EMPLOYEE MATTERS

- 3.1 Total employees: 47 (32 engineering, 8 sales, 7 operations)
- 3.2 Key employee retention risk: HIGH for 5 senior engineers
- 3.3 Retention bonuses recommended per **Schedule 3 - Employee Transition Plan**
- 3.4 No pending employment disputes

4. MATERIAL CONTRACTS

- 4.1 23 active customer contracts reviewed (see **Schedule 2 - Material Contracts**)
- 4.2 3 contracts contain change-of-control provisions requiring consent
- 4.3 Largest customer (MegaCorp) accounts for 28% of revenue - concentration risk noted in **Document: Risk Assessment Memo**

5. REGULATORY COMPLIANCE

- 5.1 Company is compliant with all applicable regulations
- 5.2 HSR filing required - timeline in **Document: Regulatory Approval Letter**

6. RECOMMENDATIONS

Based on our findings, we recommend proceeding with the acquisition subject to:

- (a) Obtaining customer consents for change-of-control contracts
- (b) Implementing retention packages for key employees
- (c) Addressing items in **Document: Financial Adjustments Memo**

Respectfully submitted,
Morrison & Associates, LLP