

Board of Directors Meeting Minutes

Q3 2024 Special Session - Strategic Acquisitions Review

September 15, 2024 | Vertex Tower, 42nd Floor Boardroom

I. Meeting Attendance and Quorum

Present:

- Sarah Jenkins, Chairperson of the Board
- Dr. Michael Chen, Vice Chairman
- Margaret Okonkwo, Lead Independent Director
- James Fitzgerald, Director (Audit Committee Chair)
- Elena Vasquez, Director (Compensation Committee Chair)
- Robert Kim, CEO
- Jennifer Walsh, CFO
- David Patterson, General Counsel

Remote Participation:

- Thomas Bergstrom, Director (via secure video conference from Stockholm)
- Dr. Yuki Tanaka, Director (via secure video conference from Tokyo)

A quorum was confirmed at 9:03 AM Pacific Time. Ms. Jenkins called the meeting to order.

II. Acquisition Target Discussion - Project Phoenix

Mr. Kim presented the strategic rationale for acquiring AlphaCorp Technologies, a privately-held AI infrastructure company based in Austin, Texas. Key highlights:

Target Overview:

- Company Name: AlphaCorp Technologies, Inc.
- Headquarters: Austin, TX (with R&D centers in Seattle and Tel Aviv)
- Employees: 342 FTEs as of August 2024
- Annual Revenue: \$87.4 million (FY2023), with 67% YoY growth
- Primary Products: Enterprise AI orchestration platform "AlphaFlow" and proprietary LLM inference optimization technology
- Key Customers: 47 enterprise clients including Fortune 500 technology and financial services companies

Strategic Rationale:

1. Vertical Integration: AlphaCorp's AI orchestration technology would complement our existing cloud infrastructure services
2. Talent Acquisition: Gain access to 89 specialized ML engineers and researchers, including 12 former Google DeepMind engineers
3. IP Portfolio: 34 issued patents related to distributed AI inference, with 18 additional pending applications
4. Market Position: Accelerates our AI-first strategy by 18-24 months versus organic development

III. Valuation Analysis and Deal Terms

Ms. Walsh presented the valuation analysis prepared by Goldman Sachs & Co. and the internal M&A team:

Proposed Valuation:

- Enterprise Value: \$892 million
- Implied EV/Revenue Multiple: 10.2x (vs. peer median of 8.7x)
- Implied EV/ARR Multiple: 14.3x on \$62.4M ARR
- Premium Justification: Superior growth trajectory, strategic IP, and talent concentration

Deal Structure:

- Cash Consideration: \$650 million (73%)
- Stock Consideration: \$242 million in restricted shares (27%)
- Escrow Holdback: \$89.2 million (10%) held for 24 months
- Earnout Potential: Additional \$75 million tied to 2025 revenue retention above 95%

Financing:

- Cash on Hand: \$380 million
- New Term Loan: \$300 million from JPMorgan Chase syndicate at SOFR + 225bps
- Remaining from stock issuance

Dr. Chen questioned whether the premium was justified given current market conditions. After extensive discussion, the Board acknowledged the strategic necessity despite the premium, citing the 18-month acceleration benefit.

IV. Due Diligence Summary and Risk Assessment

Mr. Patterson summarized the due diligence findings from the 8-week investigation period:

Completed Workstreams:

- Financial DD (Deloitte): No material findings; confirmed revenue recognition practices comply with ASC 606
- Technical DD (Internal + Third-Party): Architecture rated "Enterprise-Ready" with minor scalability concerns at 10x current volume
- Legal DD (Kirkland & Ellis): Two pending patent disputes identified with estimated maximum exposure of \$12 million
- HR DD: 8 key employees flagged as flight risks; retention packages recommended totaling \$14.5 million
- Cybersecurity DD (CrowdStrike): SOC 2 Type II compliant; three medium-severity findings with remediation plans

Risk Matrix:

1. Integration Risk: MODERATE - Different tech stacks (AlphaCorp on AWS, Vertex on GCP)
2. Key Person Risk: HIGH - CEO Marcus Webb and CTO Dr. Aisha Patel control critical IP knowledge
3. Customer Concentration: MODERATE - Top 5 customers represent 38% of ARR
4. Regulatory Risk: LOW - No CFIUS concerns identified

V. Executive Retention and Integration Planning

The Board discussed retention strategy for critical AlphaCorp personnel:

Proposed Retention Packages:

- Marcus Webb (CEO): \$8.5 million retention bonus, 3-year employment commitment, SVP role at Vertex
- Dr. Aisha Patel (CTO): \$6.2 million retention bonus, 3-year commitment, VP of AI Engineering
- Top 20 Engineers: Pool of \$14.5 million allocated based on criticality scoring
- Standard Employee Retention: 12-month salary continuation guarantee

Integration Timeline:

- Day 1-30: Legal close, branding transition, communication rollout
- Day 31-90: System access integration, reporting structure alignment
- Day 91-180: Product roadmap consolidation, customer migration planning
- Day 181-365: Full operational integration, unified go-to-market

Integration Budget:

- IT Integration: \$18.2 million (AWS to GCP migration, security alignment)
- Facilities Consolidation: \$4.5 million (Austin office retained as R&D hub)
- Professional Services: \$3.8 million (legal, accounting, HR consulting)
- Contingency: \$6.0 million (20% buffer)
- Total Integration Budget: \$32.5 million

VI. Dividend Policy Discussion

Ms. Okonkwo raised concerns about the impact of the acquisition financing on the quarterly dividend. After discussion, the following was resolved:

Current Dividend: \$1.25 per share (annual \$5.00 per share, 2.1% yield)

Board Discussion Points:

- Maintaining dividend signals financial stability during acquisition
- Net debt-to-EBITDA will increase from 1.2x to 2.4x post-acquisition
- Cash generation expected to normalize within 18 months

RESOLUTION 2024-Q3-07: The Board unanimously approved maintaining the Q4 2024 dividend at \$1.25 per share, with a commitment to reassess in Q1 2025 based on integration progress and cash flow performance.

Voting Record:

- In Favor: 8 directors
- Opposed: 0 directors
- Abstained: 0 directors

VII. Resolutions Adopted

The following resolutions were formally adopted:

RESOLUTION 2024-Q3-05: Authorization to proceed with Project Phoenix acquisition of AlphaCorp Technologies at enterprise value not to exceed \$900 million, subject to final definitive agreement review.

Vote: 7 in favor, 1 abstained (Dr. Tanaka, citing insufficient time for remote review)

CONFIDENTIAL - BOARD EYES ONLY

RESOLUTION 2024-Q3-06: Authorization of new \$300 million term loan facility with JPMorgan Chase as lead arranger.
Vote: 8 in favor, 0 opposed

RESOLUTION 2024-Q3-07: Maintenance of Q4 2024 dividend at \$1.25 per share.
Vote: 8 in favor, 0 opposed

RESOLUTION 2024-Q3-08: Approval of \$14.5 million key employee retention pool for AlphaCorp personnel.
Vote: 8 in favor, 0 opposed

VIII. Executive Session

The independent directors convened in executive session without management present from 3:45 PM to 4:30 PM.

Topics Discussed:

- CEO performance review and 2025 compensation recommendations
- Board composition and upcoming director elections
- Succession planning update

These discussions are documented separately in the Executive Session Minutes (Board Secretary access only).

IX. Adjournment

There being no further business, the meeting was adjourned at 4:47 PM Pacific Time.

The next regular Board meeting is scheduled for December 12, 2024.

Respectfully submitted,

David Patterson
Corporate Secretary

Approved: _____
Sarah Jenkins, Chairperson