

FINANCIAL AUDIT REPORT

Fiscal Year 2024

Prepared for:

Meridian Technologies Corporation
1847 Innovation Boulevard, Suite 2400
San Francisco, CA 94105

Prepared by:

Global Advisory Partners LLP
Financial Audit & Assurance Division

Report Date: December 15, 2024

Engagement Reference: FA-2024-MTC-0847

1. Executive Summary

This report presents the findings of our comprehensive financial audit of Meridian Technologies Corporation ("the Company" or "MTC") for the fiscal year ended September 30, 2024. The audit was conducted in accordance with Generally Accepted Auditing Standards (GAAS) and International Standards on Auditing (ISA).

Our audit examined the Company's consolidated financial statements, internal control systems, revenue recognition practices, and compliance with applicable regulatory requirements. The engagement team consisted of 12 senior auditors and specialists who performed substantive testing procedures over a 16-week period.

1.1 Audit Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Meridian Technologies Corporation as of September 30, 2024, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We identified three material weaknesses in internal controls over financial reporting that require management attention, as detailed in Section 4 of this report.

1.2 Key Financial Highlights

Metric	FY2024	FY2023	Change %
Total Revenue	\$847.3M	\$712.6M	+18.9%
Gross Profit	\$423.7M	\$349.2M	+21.3%
Operating Income	\$156.2M	\$118.4M	+31.9%
Net Income	\$112.8M	\$84.7M	+33.2%
Total Assets	\$1,247.5M	\$1,089.3M	+14.5%
Total Liabilities	\$486.2M	\$445.8M	+9.1%
Shareholders Equity	\$761.3M	\$643.5M	+18.3%

2. Scope and Methodology

The scope of our audit engagement encompassed the following areas:

- Examination of consolidated financial statements including balance sheet, income statement, statement of cash flows, and statement of shareholders' equity
- Assessment of internal control environment and key financial processes
- Revenue recognition testing across all business segments
- Inventory valuation and existence procedures
- Accounts receivable confirmation and collectability analysis
- Fixed asset verification and depreciation review
- Debt covenant compliance testing
- Related party transaction review
- Subsequent events evaluation through report date

2.1 Materiality Thresholds

We established the following materiality thresholds for our audit procedures:

Materiality Level	Amount	Basis
Overall Materiality	\$8.5M	1% of Total Revenue
Performance Materiality	\$6.4M	75% of Overall
Trivial Threshold	\$425K	5% of Overall
Specific Materiality - Revenue	\$4.2M	0.5% of Revenue

2.2 Testing Approach

Our audit methodology combined substantive analytical procedures with detailed testing of transactions and balances. We utilized data analytics tools to examine 100% of journal entries exceeding \$100,000, representing 94% of total transaction value. For accounts receivable, we obtained direct confirmations from customers representing 78% of the outstanding balance.

The audit team performed site visits to the Company's primary operating locations in San Francisco, Austin, and Dublin, Ireland. We observed inventory counts at the Fremont distribution center on September 28, 2024, and performed test counts of 847 stock keeping units.

3. Financial Statement Analysis

3.1 Revenue Analysis

Total revenue for FY2024 was \$847.3 million, representing an increase of \$134.7 million (18.9%) compared to the prior year. Revenue growth was driven primarily by the Enterprise Solutions segment, which benefited from the launch of the CloudSync Pro platform in Q2 2024.

Revenue by segment breakdown:

Business Segment	FY2024 Revenue	% of Total	YoY Growth
Enterprise Solutions	\$412.8M	48.7%	+24.3%
Cloud Services	\$287.4M	33.9%	+16.8%
Professional Services	\$98.6M	11.6%	+8.2%
Hardware Products	\$48.5M	5.8%	-2.1%

Geographic revenue distribution showed continued strength in North American markets, which contributed 62% of total revenue. European operations, managed through the Dublin subsidiary Meridian Technologies Ireland Ltd., accounted for 24% of revenue, while Asia-Pacific operations contributed the remaining 14%.

Key customer concentration: The Company's top 10 customers represented 34% of total revenue, with no single customer exceeding 6% of annual revenue. This represents an improvement from FY2023 when the top 10 customers accounted for 41% of revenue.

3.2 Cost Structure Analysis

Cost of revenue increased by \$69.5 million (19.6%) to \$423.6 million in FY2024. The gross margin improved slightly from 51.0% to 50.0% due to economies of scale in cloud infrastructure and improved supply chain management.

Operating expenses totaled \$267.5 million, broken down as follows:

Expense Category	FY2024	% of Revenue	FY2023
Research & Development	\$127.4M	15.0%	\$108.2M
Sales & Marketing	\$89.3M	10.5%	\$78.6M
General & Administrative	\$50.8M	6.0%	\$44.0M

3.3 Balance Sheet Review

Total assets increased by \$158.2 million to \$1,247.5 million as of September 30, 2024. The increase was primarily attributable to:

- Cash and investments: Increased by \$67.3 million due to strong operating cash flow
- Accounts receivable: Increased by \$24.8 million in line with revenue growth
- Property and equipment: Increased by \$42.1 million due to data center expansion
- Intangible assets: Increased by \$18.7 million from capitalized software development

Asset composition analysis:

Asset Category	Sep 30, 2024	Sep 30, 2023	Change
Cash & Equivalents	\$312.4M	\$267.8M	+\$44.6M
Short-term Investments	\$156.2M	\$133.5M	+\$22.7M
Accounts Receivable	\$142.7M	\$117.9M	+\$24.8M
Inventory	\$28.4M	\$31.2M	-\$2.8M
Property & Equipment	\$287.3M	\$245.2M	+\$42.1M
Goodwill	\$198.6M	\$198.6M	\$0
Other Intangibles	\$87.4M	\$68.7M	+\$18.7M
Other Assets	\$34.5M	\$26.4M	+\$8.1M

3.4 Liquidity and Cash Flow

The Company maintains a strong liquidity position with cash and short-term investments totaling \$468.6 million as of September 30, 2024. The current ratio of 2.84 and quick ratio of 2.67 indicate robust short-term financial health.

Cash flow summary for FY2024:

Cash Flow Category	Amount
Operating Activities	+\$187.4M
Investing Activities	-\$98.7M
Financing Activities	-\$43.8M
Net Change in Cash	+\$44.9M

4. Internal Control Assessment

Our assessment of internal controls over financial reporting identified the following matters requiring management attention:

4.1 Material Weakness - Revenue Recognition

Finding: We identified deficiencies in the controls over multi-element arrangement revenue recognition for enterprise software contracts. Specifically, the Company's standalone selling price (SSP) determination process lacks sufficient documentation and consistent application across sales regions.

Impact: This control deficiency resulted in adjustments totaling \$3.2 million to deferred revenue accounts during our audit procedures.

Recommendation: Implement a centralized SSP committee with standardized pricing matrices and quarterly review procedures. Management should develop written policies defining the methodology for establishing SSP for new product offerings.

Management Response: Management concurs with this finding and has engaged a third-party consultant to assist in developing enhanced revenue recognition controls. Implementation target: Q2 FY2025.

4.2 Material Weakness - IT General Controls

Finding: User access controls for the Company's ERP system (SAP S/4HANA) require strengthening. Our testing identified 47 instances of excessive access privileges and 12 instances of inadequate segregation of duties in the accounts payable and general ledger modules.

Impact: While no fraudulent transactions were identified, the control environment presents elevated risk for unauthorized modifications to financial data.

Recommendation: Conduct comprehensive user access review across all financial systems. Implement role-based access controls aligned with job responsibilities and establish quarterly access certification procedures.

Management Response: The IT Security team has initiated a remediation project with completion expected by March 31, 2025. Interim compensating controls have been implemented.

4.3 Material Weakness - Inventory Valuation

Finding: The Company's inventory obsolescence reserve calculation methodology does not adequately consider historical write-off trends and current market conditions. The existing reserve of \$1.8 million appears insufficient based on our analytical procedures.

Impact: We proposed an adjustment of \$847,000 to increase the inventory obsolescence reserve, which management recorded.

Recommendation: Revise the obsolescence reserve policy to incorporate quantitative aging analysis, historical turnover rates, and forward-looking market indicators.

5. Regulatory Compliance Review

We performed procedures to assess the Company's compliance with applicable laws, regulations, and contractual obligations:

5.1 SEC Reporting Compliance

The Company maintained compliance with Securities and Exchange Commission filing requirements throughout FY2024. All Forms 10-Q and 8-K were filed within prescribed deadlines. No material restatements or amendments were required.

Key SEC filings reviewed:

Filing	Period	Filing Date	Status
Form 10-K	FY2023	Nov 28, 2023	Compliant
Form 10-Q	Q1 FY2024	Feb 8, 2024	Compliant
Form 10-Q	Q2 FY2024	May 9, 2024	Compliant
Form 10-Q	Q3 FY2024	Aug 8, 2024	Compliant
Form 8-K	Various	Multiple	Compliant

5.2 Debt Covenant Compliance

The Company has a \$200 million revolving credit facility with Bank of America, N.A. (the "Credit Agreement"). We tested compliance with all financial covenants as of September 30, 2024:

Covenant	Requirement	Actual	Status
Leverage Ratio	< 3.0x	1.42x	Compliant
Interest Coverage	> 3.5x	12.8x	Compliant
Minimum Liquidity	> \$75M	\$312.4M	Compliant
Tangible Net Worth	> \$400M	\$563.9M	Compliant

5.3 Tax Compliance

We reviewed the Company's federal, state, and international tax compliance. The effective tax rate for FY2024 was 24.8%, compared to 25.1% in FY2023. The decrease was primarily attributable to increased utilization of research and development tax credits.

The Company is currently under examination by the Internal Revenue Service for tax years 2021-2022. Management has established reserves of \$4.2 million for uncertain tax positions related to intercompany transfer pricing. Based on our review, we believe the reserves are adequate.

6. Related Party Transactions

We identified and examined the following related party transactions during FY2024:

6.1 Board Member Affiliations

Director James Morrison serves on the board of Pinnacle Consulting Group, which provided management consulting services to the Company totaling \$1.2 million during FY2024. The engagement was approved by the Audit Committee and terms were determined to be at arm's length based on competitive bid documentation.

Director Sarah Chen is a limited partner in Vertex Capital Partners, which holds a 4.2% equity stake in the Company. No transactions occurred between the Company and Vertex Capital Partners during the audit period.

6.2 Executive Compensation

Total executive compensation for the named executive officers was \$18.7 million in FY2024, comprised of:

Executive	Base Salary	Bonus	Equity Awards	Total
CEO - Michael Thornton	\$875K	\$1,420K	\$4,850K	\$7,145K
CFO - Jennifer Walsh	\$625K	\$890K	\$2,340K	\$3,855K
CTO - David Park	\$595K	\$780K	\$2,120K	\$3,495K
COO - Amanda Richards	\$565K	\$720K	\$1,890K	\$3,175K

7. Subsequent Events

We performed subsequent events procedures through December 15, 2024, the date of this report. The following significant events occurred after the balance sheet date:

7.1 Acquisition of DataStream Analytics

On November 8, 2024, the Company completed the acquisition of DataStream Analytics, Inc., a privately-held data visualization software company based in Boston, Massachusetts. The acquisition was completed for total consideration of \$67.5 million, comprised of \$45 million in cash and \$22.5 million in Company common stock.

Preliminary purchase price allocation indicates goodwill of approximately \$38 million, with the remainder allocated to acquired technology, customer relationships, and other identifiable intangible assets. The acquisition is expected to be accretive to earnings beginning in Q3 FY2025.

7.2 Stock Repurchase Program

On October 15, 2024, the Board of Directors authorized a new stock repurchase program of up to \$100 million of the Company's common stock. As of the report date, the Company has repurchased 285,000 shares for approximately \$12.4 million under this program.

7.3 Cybersecurity Incident

On November 22, 2024, the Company detected unauthorized access to certain internal systems. The incident was contained within 48 hours and no customer data was compromised. Remediation costs are estimated at \$2.3 million, which will be recorded in Q1 FY2025. The Company maintains cybersecurity insurance with coverage limits of \$25 million.

8. Appendices

Appendix A: Audit Team

The following individuals served as the engagement team for this audit:

Role	Name	Credentials
Engagement Partner	Robert J. Harrison	CPA, CFE
Engagement Manager	Michelle Thompson	CPA, CIA
Senior Manager - IT	Kevin O'Brien	CISA, CISSP
Senior Manager - Tax	Patricia Nguyen	CPA, JD
Audit Senior	Christopher Davis	CPA
Audit Senior	Emily Rodriguez	CPA, CFA

Appendix B: Documents Examined

The following primary documents were examined during our audit procedures:

- Board of Directors meeting minutes (12 meetings)
- Audit Committee meeting minutes (8 meetings)
- General ledger and subsidiary ledgers
- Bank statements and reconciliations (all accounts)
- Customer contracts (sample of 156 contracts)
- Vendor agreements (sample of 89 agreements)
- Insurance policies and coverage documentation
- Loan agreements and covenant calculations
- Tax returns and supporting workpapers
- Legal correspondence and litigation matters

Appendix C: Management Representation Letter

We obtained written representations from management, signed by the Chief Executive Officer and Chief Financial Officer, confirming the following:

1. Management acknowledges responsibility for the fair presentation of the consolidated financial statements in conformity with GAAP.
2. Management has provided access to all financial records, documentation, and personnel necessary for the conduct of the audit.
3. There are no material transactions that have not been properly recorded in the accounting records.
4. The Company has complied with all aspects of contractual agreements that would have a material effect on the financial statements.
5. Management is not aware of any fraud involving senior management or employees with significant roles in internal control.
6. All related party transactions have been disclosed and recorded in conformity with GAAP.
7. There are no violations or possible violations of laws or regulations whose effects should be considered for disclosure or as a basis for recording a loss contingency.
8. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances other than as disclosed.

The representation letter is dated December 15, 2024, and signed by Michael Thornton (CEO) and Jennifer Walsh (CFO).

Appendix D: Accounting Policy Summary

Significant accounting policies applied in the preparation of these financial statements:

Revenue Recognition: The Company recognizes revenue in accordance with ASC 606, Revenue from Contracts with Customers. Revenue from software licenses is recognized at a point in time when control transfers to the customer. Subscription revenue is recognized ratably over the subscription period. Professional services revenue is recognized as services are performed.

Accounts Receivable: Accounts receivable are stated at the amount management expects to collect. The Company maintains an allowance for doubtful accounts based on historical experience and assessment of current economic conditions. The allowance was \$4.8 million at September 30, 2024.

Inventory: Inventory is stated at the lower of cost (first-in, first-out method) or net realizable value. The Company reviews inventory for excess and obsolescence quarterly and records reserves as appropriate.

Property and Equipment: Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over estimated useful lives: buildings (30 years), computer equipment (3-5 years), furniture and fixtures (7 years), and leasehold improvements (shorter of lease term or useful life).

Goodwill and Intangible Assets: Goodwill is tested for impairment annually as of July 1, or more frequently if events indicate potential impairment. Finite-lived intangible assets are amortized over their estimated useful lives (3-10 years) and tested for impairment when indicators exist.

Appendix E: Best Practices from Prior Engagements

The following best practices have been observed across our client portfolio and may be applicable to Meridian Technologies:

E.1 Revenue Recognition Controls - Case Study: Fortune 500 Software Company

Client Profile: \$2.1B revenue SaaS company, 15,000 employees, NASDAQ-listed

Challenge: Similar multi-element arrangement complexity with inconsistent SSP documentation across 8 sales regions.

Solution Implemented:

- Established centralized Revenue Recognition Committee meeting bi-weekly
- Created SSP database with quarterly refresh based on actual transaction data
- Implemented automated contract review workflow in Salesforce CPQ
- Deployed machine learning model to flag unusual pricing deviations

Results Achieved:

- Reduced audit adjustments by 94% year-over-year
- Decreased contract review time from 5 days to 8 hours
- Achieved clean SOX 404 opinion after two years of material weaknesses
- CFO estimated \$2.3M annual savings in audit and compliance costs

Key Success Factors:

- Executive sponsorship from CFO and Chief Revenue Officer
- Cross-functional team (Finance, Sales, Legal, IT)
- Investment in technology automation (\$450K implementation)
- Ongoing training program for sales and finance teams

E.2 IT General Controls Remediation - Case Study: Mid-Market Financial Services

Client Profile: \$380M revenue fintech company, 800 employees, PE-backed

Challenge: 67 instances of excessive access privileges and inadequate segregation of duties identified during SOC 2 Type II audit.

Solution Implemented:

- Deployed SailPoint IdentityNow for automated access governance

- Implemented quarterly access certification campaigns
- Created role-based access control (RBAC) matrix with 147 defined roles
- Established privileged access management (PAM) using CyberArk
- Automated joiner/mover/leaver processes with HR system integration

Results Achieved:

- Reduced excessive access findings from 67 to 0 in 6 months
- Achieved SOC 2 Type II certification with no exceptions
- Decreased access provisioning time from 3 days to 2 hours
- Enabled real-time access visibility for audit requests

Implementation Timeline:

- Month 1-2: Role mining and RBAC matrix design
- Month 3-4: SailPoint implementation and integration
- Month 5: User access review and remediation
- Month 6: PAM deployment and certification campaign

Total Investment: \$285,000 (software) + \$180,000 (implementation services)

E.3 Inventory Management Excellence - Case Study: Hardware Technology Company

Client Profile: \$520M revenue hardware/software company, 1,200 employees

Challenge: Inventory obsolescence reserves consistently understated, resulting in \$4.2M cumulative write-off over 3 years.

Solution Implemented:

- Developed predictive obsolescence model using 5 years of historical data
- Integrated real-time market pricing feeds from 12 distributor APIs
- Created SKU-level aging dashboard with automated reserve calculations
- Established monthly cross-functional review (Finance, Supply Chain, Product)
- Implemented vendor managed inventory (VMI) for 60% of SKUs

Results Achieved:

- Reserve accuracy improved from 62% to 97%
- Inventory turns increased from 4.2x to 6.8x annually
- Working capital freed: \$18.4M
- Zero audit adjustments for inventory in subsequent 2 years

Predictive Model Features:

- Product lifecycle stage weighting
- Historical velocity trending
- Competitive product launch monitoring
- Customer demand signal integration
- Supplier lead time variability

Model Accuracy: 94.3% prediction accuracy for 12-month obsolescence risk

E.4 Debt Covenant Monitoring - Case Study: Growth Stage Technology

Client Profile: \$175M revenue B2B SaaS, Series D funded, preparing for IPO

Challenge: Near-breach of leverage covenant during rapid growth phase; manual covenant tracking led to 11th-hour scrambles.

Solution Implemented:

- Built real-time covenant compliance dashboard in Tableau
- Integrated with ERP (NetSuite) and banking platforms

- Created 90-day forward projection model with scenario analysis
- Established automated alerts at 80%, 90%, 95% of covenant limits
- Implemented monthly covenant compliance certification process

Results Achieved:

- Zero covenant breaches despite 3 quarters of volatility
- Reduced CFO covenant monitoring time by 85%
- Successfully negotiated covenant amendment with 45 days lead time
- Achieved investment-grade credit rating within 18 months

Dashboard Metrics Tracked:

- Leverage ratio (actual vs. limit vs. projected)
- Interest coverage ratio with trend analysis
- Minimum liquidity with daily cash positioning
- Tangible net worth with equity event impacts
- EBITDA adjustments and add-backs visibility

Banker Feedback: "Best covenant reporting we've seen from a company this size."