

# **SERIES C DUE DILIGENCE REPORT**

**DeepShield Systems, Inc.**

Prepared as of January 11, 2024

## **1. EXECUTIVE SUMMARY**

This due diligence report has been prepared in connection with the proposed Series C financing of DeepShield Systems, Inc. (the "Company"). The review period covered operations from January 1, 2021, through December 31, 2023.

## **2. CORPORATE STRUCTURE AND GOVERNANCE**

### **2.1 Corporate Formation**

- Delaware C-Corporation formed March 15, 2016
- Good standing in Delaware and all operating jurisdictions
- Foreign qualifications maintained in CA, TX, MA, and NY
- No subsidiary entities or offshore operations

### **2.2 Board Composition**

- 7-member Board of Directors
- 2 Independent Directors
- 2 Series A Investor Directors
- 1 Series B Investor Director
- 2 Founder/Management Directors
- Quarterly meetings held with >90% attendance

## **3. FINANCIAL POSITION**

### **3.1 Revenue Growth**

- FY2021: \$18.5M
- FY2022: \$25.7M
- FY2023: \$32.5M
- CAGR: 32.4%

### **3.2 Key Financial Metrics**

- Gross Margin: 73%
- Net Revenue Retention: 118%
- Customer Acquisition Cost: \$125,000
- Lifetime Value: \$1.2M
- Cash Balance: \$14.2M (as of December 31, 2023)

### **3.3 Capital Structure**

- Series A: \$12M raised (2019)
- Series B: \$28M raised (2021)
- Convertible Notes: \$5M outstanding
- Total Shares Outstanding: 45,238,921
- Fully Diluted Shares: 52,647,832

## **4. TECHNOLOGY AND IP**

### **4.1 Patent Portfolio**

- 12 issued patents
- 8 pending applications
- Core IP coverage in:
  - Deep-layer security architecture
  - AI-driven threat detection
  - Industrial control system protection
  - Maritime cybersecurity systems

### **4.2 Technology Stack**

- Proprietary codebase: ~2.5M lines
- Third-party dependencies: All properly licensed
- Security certifications: ISO 27001, SOC 2 Type II
- Technical debt assessment: Moderate

## **5. COMMERCIAL OPERATIONS**

### **5.1 Customer Base**

- Total Enterprise Customers: 187
- Fortune 500 Customers: 42
- Average Contract Value: \$225,000
- Customer Concentration: No customer >8% of revenue

## **5.2 Sales Pipeline**

- Current Pipeline Value: \$45M
- Weighted Pipeline: \$28M
- Average Sales Cycle: 180 days
- Win Rate: 31%

## **6. LEGAL AND COMPLIANCE**

### **6.1 Material Contracts**

- All customer contracts reviewed
- No material defaults identified
- Standard terms and conditions implemented
- Service level agreements within industry standards

### **6.2 Litigation and Claims**

- No active litigation
- Two resolved customer disputes (2022)
- One pending patent opposition
- No material regulatory investigations

### **6.3 Regulatory Compliance**

- CFIUS clearance obtained
- Export control compliance program in place
- GDPR and CCPA compliant
- Regular security audits performed

## **7. HUMAN RESOURCES**

### **7.1 Employee Base**

- Total Headcount: 187
- Engineering: 89
- Sales/Marketing: 45
- Customer Success: 32
- G&A: 21

## **7.2 Employment Matters**

- Standard offer letters and agreements in place
- Equity incentive plan properly administered
- No material employment claims
- Key employee retention: 92%

## **8. RISK FACTORS**

### **8.1 Market Risks**

- Increasing competition in ICS security
- Regulatory environment evolution
- Geographic concentration in North America
- Technology obsolescence considerations

### **8.2 Operational Risks**

- Supply chain dependencies
- Key personnel retention
- Scaling challenges
- Customer implementation complexity

## **9. RECOMMENDATIONS**

Based on our review, we recommend:

Strengthening IP protection in emerging markets

Implementing enhanced financial controls

Expanding geographic presence

Accelerating product development timeline

Increasing sales team capacity

## **10. CERTIFICATION**

This report has been prepared based on information provided by the Company and its representatives. While we believe this information to be accurate and complete, we make no representations or warranties regarding its accuracy or completeness.

Prepared by:

[Legal Counsel Signature Block]

Date: January 11, 2024

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