Proposed Scope of Work for kyu Financial Due Diligence Engagements

General Procedures

- Read and understand the Term Sheet.
- Inquire with management to understand the business history/background, opportunities, and key risk areas.
- Interview the Company's management as well as key finance/accounting and operations personnel to gain and understanding of the accounting policies, financial reporting procedures, and internal control environment. Be prepared to give a view on the competence and capabilities of the Target's finance team and financial leadership.
- Summarize all significant accounting policies adopted by Target, including revenue recognition, judgmental reserves and estimates, capitalization/fixed asset policies, related party transactions, purchase accounting for prior mergers, acquisitions, and investments.
- Discuss Target's operations and historical operating trends, any seasonality in the business, the industry and their key competitors over the historical period.
- Obtain detail of any significant changes in accounting policies, recorded by the Target.
- Read the most recent report of the audited financial statements
- Review and discuss any other key reports used by management to manage the business and related key performance indicators

Quality of Earnings

- Analyze EBITDA add backs/non-recurring charges identified by Target management:
  - Obtain supporting documentation for all adjustments, including calculations and third party documentation to discuss with Management
  - Present a reconciliation of net income to EBITDA for the Historical Period
- Analyze financial trends and fluctuations with the primary purpose of identifying potential non-recurring or out of period income and expense items.
- Inquire of the Target's management and analyze appropriate support for: (i) significant and/or unusual accounting policies, procedures and practices (including year-end vs. interim accrual cut-off, vacation, etc.), (ii) accounts that involve a significant amount of judgment, (iii) changes in accounting principles, policies, procedures or practices, (iv) nature and extent of year-end closing adjustments, (v) unusual and non-recurring items of income and / or expense, (vi) transactions that represent "soft" income (i.e. reversals of accrued expenses, etc.), (vii) non-continuing sources of income and their impact on operations and profitability, and (viii) transactions with affiliates or related parties.
- Calculate the revenue per employee and average effective bill rate of the Target for the current and historical period and compare to industry standards.

Revenue and Gross Profit

- Understand revenue recognition policies by different service offerings and product types
- Summarize the primary billing procedures of the target as it relates to client billings (i.e. billing in advance, billing in arrears, retainer billing or equal installments, percent complete, etc.
- Obtain an understanding of all key customer arrangements
- Analyze contracts for top 5 customers (dependent upon size) to understand key terms and conditions, as applicable. This should include: contract length/term, payment terms, termination clauses, exclusivity/non-compete, fixed vs variable compensation, bonus/incentive compensation, refund/rebate provisions, etc.
- For the top 5 customers, identify who the main account leader is and who is the secondary account lead on each relationship. Consider these individuals in the context of their significance to the business, and if they will be tied to the financial performance and future success of the business
- Understand and quantify customer concentration risk
- Prepare reconciliation of gross billings to net revenues; (e.g. understand various components of gross billings including fees, production, media, or other direct costs, etc.)
- Understand customer retention rates and average client tenure over the Historical Period
- Obtain a listing of credit memos, if any, and discuss with Target management as to the nature of any significant credit memos.
- Break out revenues and customers between those that are recurring and non-recurring (AOR/Retainer vs Project based relationship)
- Obtain an analysis of profitability by client and/or by service offering if available, customer, channel, and location (as applicable). Understand what's causing any significant fluctuations over the historical period
- Describe how the Target prices their client work; fixed fees for deliverables, scoped staffing using hourly rates, productized service pricing, etc.
- Summarize new business activities, responsibility, ownership and reporting systems for managing new business leads, prospects, and opportunities

Expense Overview

- Understand Target's cost build-up and cost structure based on current operations.
- Understand the major drivers for significant cost components (staff compensation, media/production spend, technology costs, professional fees, sales and marketing, travel & entertainment, insurance, rent & related property costs, etc.).

- Understand any outsourced services and relationships with key vendors, including any significant purchase guarantees and commitments and view related contracts as appropriate.
- Discuss any research and development activities and whether those costs have been capitalized or expensed.
- Understand costs associated with on-going maintenance of any proprietary software (if applicable).
- Obtain details and support for any non-operating expenses for each period in the Historical Period as well as any non-recurring or non-cash expense items.
- Obtain a listing of software licensing costs used in Target's service offering.
- Identify costs that might be eliminated or reduced post-closing.

Labor Costs

- Identify annual compensation costs paid to all owners, including annual bonuses, commissions, and dividends.
- Understand compensation paid to all other key management or other highly paid individuals over the Historical Period and understand any significant changes in key personnel
- Analyze and understand temporary labor practices, as applicable. Identify if temporary employees are reviewed for proper classification and treatment with local labor laws.
- Identify any key employees or management that are not full-time staff members.
- Understand Target's recruiting process and approach to recruiting
- Summarize how salary reviews and pay increases are managed, the frequency, etc.
- Break down of total employment costs in the financial statements by separate component: Salaries, Benefits, Bonus, Commission, 401k match, Stock Comp, Profit Sharing, Pension/Retirement Plans, etc.
- Obtain a base understanding of any 401(k) or other profit-sharing plans, medical insurance coverages and other benefit plans to ensure reasonableness for the market they are operating in.
- Understand labor costs associated with any research & development or proprietary software (if applicable)

Property Leases

- Obtain a base understanding of all property leases and identify the key terms and conditions, including length of lease, termination clauses, rent escalation, sub-lease ability, landlord incentives, etc.
- Confirm that rent expense has been straight-lined appropriately in accordance with USGAAP accounting principles
- Obtain an understanding of future plans or locations related to property leases if management expects any changes in the next 12-18 months.

- Identify if there are any storage facilities or other off-site property leases, the business purpose, and the annual cost

Budgeting & Forecasting

- Understand how the company budgets and forecasts the business, how often throughout the year this is performed or updated, and how results are tracked against forecast.
- Obtain the most recent annual budget and most recent forecast, as well as any key assumptions or supporting documents utilized to develop the forecast (i.e. Revenue pipeline)
- Review and discuss with management forward committed revenues by client, as well as new business pipeline by client to assess the reasonableness of the budget/forecast
- Review and discuss with management their process of tracking new prospects and opportunities and how that translates into their revenue forecast
- Consider conversion rates for winning new business (by volume, by value, time period of measurement etc.)
- Identify any significant risks or weakness associated with low committed revenues, poor revenue pipeline visibility, or any particular strengths associated with high levels of retainer work, long-term contracts, etc.
- Assess viability of the current year forecast and next year projected profit, considering assumptions made on revenue confidence, new business gap, forecasted cost increases and other practical factors impacting growth

Working Capital

- Present a schedule of normalized working capital excluding debt and cash, for analysis of the underlying business
- Ensure that all client advances received are not part of normalized working capital, but classified as debt, unless the costs relating to these advances are fully accrued for
- Identify any normalizing working capital adjustments as a result of our due diligence process and understand related impact to EBITDA.
- Understand costs associated with significant media spend and/or production costs that have a material impact on working capital
- Understand any seasonality within working capital, both historical and as adjusted, with a focus on the estimated normalized working capital levels at the expected closing date
- Analyze monthly working capital requirements and trends in key metrics (DSO, DPO, etc.) for the trailing 12 months to understand trends and sustainable requirements.

Cash and cash equivalents

- Obtain bank reconciliations at Historical Balance Sheet dates and scan for unusual or significant reconciling items.

- Prepare a proof of revenue for the TTM period, reconciling reported revenues to third party bank statements.
- Obtain an understanding of all key controls/safeguards around cash management to ensure basic cash control processes are in place

Accounts Receivable

- Obtain reconciliations between the receivable listings and the balance sheet figure and obtain explanations for any reconciling items
- Scan the most recent accounts receivable aging detail report(s) and comment on the quality of receivables, collectability, including customer credit balances.
- Comment on the allowance for doubtful accounts, bad debt history (including non-recurring recoveries) and other allowances resulting in dilution of the accounts receivable balance.
- Understanding of all key controls in place for evaluating and managing client credit risk

Prepaid Expenses, Security Deposits and WIP (Work in process)

- Obtain understanding and analysis of the components of prepaid expenses and other asset accounts for the historical periods. Explain any reasons for significant or unusual fluctuations in addition to items older than 12 months.
- Obtain understanding and analysis of the components of WIP for the historical periods. Explain any reasons for significant or unusual fluctuations in addition to items older than 12 months.
- Assess the reasonableness of these assets for potential risk of write-off for items older than 12 months.

Property, Plant, and Equipment

- Obtain a detail schedule of fixed assets and accumulated depreciation and agree to financial statements.
- Obtain and review fixed asset policy for reasonableness including capitalization criteria, useful lives, and disposal procedures.
- Summarize any proprietary technology, systems or other intellectual property assets owned by Target and how they are safeguarded, protected and maintained.

Accounts Payable, Accrued Expenses (including credit card payable), Deferred Revenue

- Scan the latest accounts payable aging for any unusual, old, or related party transactions
- Understand all significant vendor arrangements, both client related and internal
- Understand typical payment terms for significant vendors
- Obtain a list of all accrued liabilities (i.e. identifiable operating liabilities), scan for completeness and agree to financial statements.

- Obtain an understanding of the Target's month-end accrual procedures for each significant accrual and the underlying assumptions/process used to make those accruals.
- Understand and document polices related to accounting for accrued commission, bonuses, vacation, payroll, group insurance, and any other components of staff compensation.
- Obtain a deferred revenue listing by customer and understand all significant balances. Identify any balance that is older than 12 months and obtain explanation.

Debt-Like Items

- Prepare a schedule of debt-like items to understand the Target's debt (on and off balance-sheet) and consider the impact on normalized working capital.
- Obtain a copy of any 3rd party or intercompany debt/loan agreements and summarize key terms

Commitments and Contingencies

- Understand whether any contractual obligations or other off-balance sheet commitments or contingencies exist; understand the future cash commitments to fund these obligations.
- Inquire with Management about any outstanding or potential litigation, employee claims for termination or dissatisfaction, client complaints, indemnification/warranty claims and other claims against the Target.