

DUE DILIGENCE CHECKLIST

Corporate Matters

- Articles of incorporation
- Board Minutes
- Stock transfer records
- Shareholder communications
- Examine list of names in which company has done business
- Certificate of Good Standing from Secretary of State
- Organizational chart
- Listing of all states/countries the company is authorized to do business
- Listing of states/countries where the company owns/leases property, maintain employees
- Equity transactions (capitalization)
- Review corporate history
- Review stock transfer ledger
- Review management and investment studies including valuations & appraisals
- Review press clippings and releases
- Review business associations of which the company is a member

Capitalization – equity and LT debt

- Review classes and series of securities authorized & issued
- Current shares outstanding
- Off balance sheet liabilities
- Stock subscriptions agreements
- Letters of credit
- Shareholder agreements
- Documents imposing restrictions on stock transfer or merger
- Preferential agreements on stock purchase rights
- 3rd party or government consent for merger or acquisition
- Loan, line of credit or other financing arrangements
- Tax sharing agreements
- Overhead allocation agreements
- Management service or personnel loan agreements
- Guarantees or keep-well arrangements for the benefit of creditors or other 3rd parties
- Review issuances of securities, options, grants, warrants, convertible securities, restricted stock awards, phantom stock rights, employee stock purchase plan, etc.
- Copies of all government permits
- Review (voting) agreements among security holders, or between security holders and the company, relating to voting, grants of proxies, first right of refusal, participation rights, observation or information rights
- Review (management) agreements among security holders, or between security holders and the company, relating to its management, ownership or control of the company.
- Review agreement relating to registration rights, preemptive rights, rights of first refusal or co-sale rights
- Key terms associated with trust agreements
- Examine agreements of private placement, disclosure letters relating to sales of securities

Strategic & Tactical Systems						Balance Sheet			INCOME STATEMENT			
Mkt/Strategic Plan (3-5 yrs)	Partnerships & Brand	Annual Business Plan	Performance & Process Mgmt	Legal, Risk & Regulation	Personnel	Assets	Liabilities	Equity & Retained Earnings	Revenue	CGS	GM	Expenses & IDAT
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DUE DILIGENCE CHECKLIST

- Understand any claims made since inception by any person asserting a right to an equity interest in the company
- Identify any restrictions on the company's ability to make dividend payments

Employee Matters

- Employee policies and handbook
- Compensation agreements
- Compensation levels
- Labor contracts
- Bonus & profit sharing agreements
- Retirement plans; defined benefits, thrift, pension, profit-sharing
- Post-employment agreements; salary continuation agreements
- Union-sponsored multiemployer plans
- Stock bonus plans
- Employee stock ownership plans
- Medical plans
- Dental plans
- Short-term disability or sick plan arrangements
- Long-term disability insurance or uninsured arrangements
- Group term or other life or accident insurance
- Unemployment benefits
- Vacation benefits
- Welfare plans
- Director or officer deferred fee plans
- Excess benefits plans (excess of IRS code limitations)
- Stock option, purchase or stock bonus plans

Financial Matters

- Accounting policies
- Leases; equipment, vehicles, etc.
- Accounting methodology changes
- Auditing policies & work papers
- Contracts greater than 1 year or \$xx
- Review of any transaction between company and any shareholders, member, officer, director, employee or affiliates
- Logistic or warehouse contracts
- License agreements
- Franchise agreements
- Joint venture agreements
- Partnership agreements
- Distribution agreements
- Joint marketing agreements
- Purchasing agreements
- Professional service agreements
- Capital expenditure agreements
- Contracts for sale of assets (non-inventory)
- Judicial and administrative orders

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DUE DILIGENCE CHECKLIST

- Building & construction agreements
- Lease agreements for machinery, equipment or property
- Computer contracts
- Contracts with government entities such as NIH, DoD, etc.
- Debts agreements: notes, mortgages, leases, license, franchise or covenants that would be violated or triggered by an acquisition
- List of bank accounts
- Review lists where company is identified as an approved vendor
- List of awards, etc.
- Review major transactions between the company and its subsidiaries

Financial Performance

- Accounts receivable aging
- Accounts payable aging
- Major growth drivers and prospects
- Predictability of business
- Risks to foreign operations (exchange rates fluctuations, government instability)
- Industry and company pricing policies
- Income statements, balance sheets, cash flows and footnotes
- Planned versus actual results
- Management financial reports
- Product type (Sales & GM)
- Channel (Sales & GM)
- Geography (Sales & GM)
- Identify unusual trends to identify non-recurring income or expense items
- Revenue recognition policy
- Accounting treatment of sales discounts
- Concentration of customer risks
- Backlog
- Bank accounts & depository arrangements
- Inventory accounting policy
- Trend expense categories: controllable, non-controllable
- Instruments that could create liens
- Receivable analysis
- Payable analysis
- Licensing agreements for non-tangible assets

Financial Projections

- Revenue (by region, by customer, product line, etc.)
- Gross margin
- EBITDA
- Working capital
- Economic assumptions underlying projections
- Explanation of projected capital expenditures, depreciation and working capital arrangements
- External financing assumptions

Tax Information

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DUE DILIGENCE CHECKLIST

- Federal, State, Local and foreign tax returns
- Audit reports of tax authorities & any open issues
- Real estate tax bills and payment records
- Personal property tax bills & payment record
- Communications between tax authority and company
- Franchise, license, capital stock, doing business & similar tax reports
- Loss carryforward

Management & Operations:

- Understand significant 3rd party vendors
- Proprietary Information
- Patents & patent applications
- Copyrights
- Organizational chart
- Non-competition agreements
- Trademarks, service marks, logos, trade names
- Historical and projected headcount by function & location
- Non-patentable proprietary know-how (trade secrets)
- Biographies of key personnel
- Employee relations issues
- Personnel turnover

Real Estate and Equipment And Other Personal Property

- List of owed items
- List of sold items
- List of leased items
- Appraisals values to book value

Insurance:

- Fire
- Liability
- Casualty
- Life
- Title
- Works compensation
- Director and officer liability
- Claim and loss history, correspondence with carriers

Government Regulation

- Licenses, permits and filings required or made with any government agency
- Correspondence with regulatory authorities
- Accident or injury reports with filings

Litigation & Claims

- Pending or threatened litigation, regulatory investigations, governmental actions, arbitrations or notices of violation
- Files and records of past litigations
- Environmental & safety issues
- New or pending regulations and their consequences
- History with SEC, FDA, EPA and other regulatory agencies

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DUE DILIGENCE CHECKLIST

Research & Development

- Capabilities
- Strategy
- Key Personnel
- Major activities
- New Product Pipeline
- Status & timing
- Cost of development
- Critical technologies necessary to implement
- risks

Marketing, Sales & Distribution

- Domestic & international distribution channels
- Positioning of company and its products
- SWOT by segment
- Customer pipeline analysis
- Existing customer status & trend of relationship
- Salesforce:
- Compensation
- Quota
- Sales cycle
- Expansion plans

Products

- Major customers and applications
- Historical & projected growth rates
- Market share
- Speed & nature of technology change
- Timing of new product launches
- Cost structure and profitability

Customer Information

- List of top customers inclusive of revenue
- List of strategic relationships
- List of significant customers lost and reasons
- List of top suppliers

Competitive Information

- Market position & related strengths & weaknesses in each market segment
- Basis of competition by segment (price, service, technology, distribution)

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