

DUE DILIGENCE CHECKLIST

A. GENERAL INFORMATION

- ✓ Organization chart and other information regarding structure of the Company, including subsidiaries and other affiliates, % ownership and jurisdiction of each organization.
- ✓ List of officers, directors and key management/supervisory personnel with appropriate background information regarding credentials.
- ✓ Summary of number of employees with relevant information, by functional group (Sales, Marketing, R&D, G&A, etc.) with approximate total wage/salary cost of each.

B. SALES AND MARKETING

- ✓ Explanation on how potential customers are identified.
- ✓ Detail regarding the average dollar sale and time requirements to close a sale. Need 5 typical customer contacts for references.
- ✓ List of the top 10 customers for each major business segments and percentage of total sales for the past three fiscal years.
- ✓ List of the top 10 suppliers/vendors and total cost over past three fiscal years (if applicable).
- ✓ Provide samples/copies of all product brochures, marketing materials, promotions and advertisements.
- ✓ Explain sales pipeline process and determine the current sales backlog (amount also by customer).
- ✓ Provide list of Company's major type of customers for each major segment - by type of business or other classification you deem relevant.
- ✓ Provide schedule of tenure of the average customer, including whether there are continuing contracts with customers. Explain whether special terms are offered to significant customers.
- ✓ For each major business segment, provide market share information and trends.
- ✓ Provide information on Customer Support and Service organization (if applicable), including:
 1. Functions
 2. Personnel
 3. Pre-sales and technical support
 4. Post-sales assistance
 5. Compliance resolutions
- ✓ Provide information on complaints, efficiency and effectiveness of Service/Support function.

C. FINANCIAL AND ACCOUNTING MATTERS

- ✓ Provide financial statements, audited if available, and other financial documents of the Company and any affiliates for the past three fiscal years. Including (where applicable):
 1. Comparative financial results by major divisions
 2. Detailed breakdown of sales and costs
 3. Detailed breakdown of general and administrative expenses
 4. Detailed breakdown of selling and marketing expenses
 5. Detailed breakdown of working capital accounts
 6. Detailed breakdown of fixed assets
 7. Depreciation and capital expenditures (with particular emphasis on capitalized software development expenses, if applicable)
 8. Tax returns, IRS reports or correspondence
- ✓ Provide the following, if applicable:
 1. Chart of accounts and a description of accounting practices.
 2. Accounting procedure manuals and location and nature of accounting records.
- ✓ Provide the name and address of auditors of Company and any prior auditors (including date of appointments, duration, and remuneration).
- ✓ Provide accountants' management control letters concerning the Company and any responses by the Company for the past five years.
- ✓ Provide audit documentation, papers and official communications between the Company and its auditors, other consultants or the IRS and any internal audit reports.
- ✓ Provide documentation relating to material write-downs or write-offs by the Company of notes or accounts receivable or inventories, other than in the ordinary course of business.

D. RECEIVABLES

- ✓ For accounts receivable, provide:
 1. Analysis of total receivables due from customers, officers, employees and others
 2. Aged trial balance of receivable accounts above; compare them to aging percentages for previous years and determine any trends, seasonality, etc.
 3. Terms of sale
 4. Number of customers
 5. Names of large customers and amount of annual sales to each by product line; determine any special arrangements with any of these customers
 6. Credit policies and significance of credit limits
 7. Turnover data
- ✓ Comment on collectability of receivables and adequacy of loss reserves.
- ✓ Comment if receivables are discounted or pledged as collateral for borrowings.

E. LIABILITIES

- ✓ Detailed schedule of accounts payable and accrued expenses for the latest annual and interim periods.
- ✓ Schedule of the top 5 vendors from latest 12 month period.
- ✓ Schedule of commitments to customers - product deliverables, consulting agreements, etc.
- ✓ Are any assets are pledged as collateral?
- ✓ For each class of debt, provide listing of debt holders (if applicable)
- ✓ Provide details about all financial liabilities, recorded or contingent, including the general terms of all notes, bonds and mortgages with particular reference to personal guarantees and accelerated maturity upon change of control.
- ✓ Provide documentation on contingent liabilities such as:
 1. Contracts and agreements
 2. Sales subject to service and warranty guarantees
 3. Product liability (if applicable)
 4. Unfunded past service costs of pension plans or unfunded retirement benefits.
 5. With respect to accounts payable, provide an analysis of payables by type (vendor, taxes, payroll, etc.) and determine payment practices for each.

F. BUDGETS AND FORECASTS

- ✓ Determine the budgeting process, including capital budgeting, if applicable.
- ✓ For each of the next three years (calendar or fiscal years ended), provide in an excel model, consolidated projections (and separate business unit projections if applicable), on a quarterly basis, including:
 1. Income statements, balance sheets and cash flow statements
 2. Underlying assumptions including product/service introductions, market size, market share, pricing, volumes, discounts, ramp-up costs, etc.
 3. Underlying assumptions for all major expense and capital expenditures, particularly R&D software development
- ✓ Explain amortization policy for any prepaid expenses or deferred charges.
- ✓ Explain how goodwill or other intangibles arose and how they are being amortized (if applicable).
- ✓ Explain details regarding the important metrics which management uses to run the Company (capacity utilization, sales per person, bench time, etc.). Provide comparisons of these metrics for the past three years.

G. TAXES

- ✓ Provide all tax returns or copies of extensions of time within which to file such reports filed by the Company with the Federal government, the Internal Revenue Service, any state or local government or taxing authority, and any foreign jurisdiction or taxing authority, for at least the past three fiscal years, and any years prior there to that remain open and subject to review by the IRS or any other taxing authority. If applicable, provide copies of all audits, determination and other correspondence pertaining thereto.
- ✓ Provide copies of all tax-sharing and other tax-related agreements.
- ✓ Provide information related to any audit of any return or report filed by or on behalf of the Company for the last three fiscal years, and any pending audits for any prior periods that could affect the tax liability, credits or other tax attributes of the Company.
- ✓ Provide schedules showing the percentage of Federal Taxable Income being reported to the states in which the Company files returns (the sum of all state apportionment factors).
- ✓ For personal and real property taxes, provide schedule setting forth, for each location in which such payments were made, the most recent period for which such tax payment was made, and the date on which such payment is due and payable each year.
- ✓ Provide schedule describing any ongoing tax disputes, together with copies of revenue agents' reports, correspondence, etc., with respect to any pending federal, state, provincial or similar tax proceedings, with regard to open years or items relating to the Company.
- ✓ Provide detailed reconciliation's of the Company's effective tax rate for the past three years. Provide an analysis of any deferred taxes.
- ✓ Provide schedules reconciling book income to taxable income for the last three years.
- ✓ Provide detail of the amounts and expirations of any carryovers of net operating or capital losses, investment tax credits, foreign tax credits and other tax credit carryovers. Determine the tax basis for the Company's assets.

H. INSURANCE

- ✓ Provide information with respect to self-insurance, if any.
- ✓ Provide information with respect to past loss and claims experience.
- ✓ Provide information concerning whether a change in control will cause additional cost for Workers Compensation Insurance, unemployment insurance or other insurance.

I. EMPLOYEE, DEFERRED COMPENSATION AND BENEFITS MATTERS

- ✓ Provide documentation on all employee benefit plans, trusts, determination letters, IRS filings (including tax returns), filings and actuarial reports relating to any deferred compensation arrangement to which the Company is a party or by which the Company is bound.
- ✓ Provide documentation relating to any severance arrangement between the Company and any employee, officer, director or consultant of the Company.
- ✓ Provide documentation relating to any welfare benefit plan, health insurance, disability insurance, life insurance or other benefits given to employees, officers, directors or consultants of the Company.
- ✓ Provide any employment contracts of the Company, for each category of employees, and indication of any difference for individual employees. Provide all individual employment contracts.
- ✓ Provide examples of standard agreements of the Company which employees are required to sign, including:
 1. Confidentiality agreements
 2. Invention assignment agreements
 3. Conflict of interest declarations
 4. Non-competition agreements
- ✓ Provide all significant correspondence with labor and social security authorities for last three years.
- ✓ Provide any contracts with independent or self-employed consultants.
- ✓ Provide any agreements currently in effect between the Company and any former officer, director or employee (if applicable).
- ✓ Provide information on any liability for termination payments to employees.
- ✓ Provide all brochures, information, booklets, policies and procedures manuals, internal regulations, or other written material given to employees or potential employees of the Company to acquaint them with the Company's business and with services, compensation and benefits offered to employees.
- ✓ Provide all correspondence with labor unions and all memoranda regarding communication with such labor unions or union employees (if applicable).
- ✓ Provide history for the last three years of any union negotiations, number of employees, turnover, absentee rates, and distribution (if applicable).
- ✓ Provide details of current compensation plans, including incentives and deferred compensation plans, with particular attention to the ten highest compensated employees.
- ✓ Copy of all employment non-compete and other agreements or contracts with any employee.
- ✓ Copy of Company's Code of Conduct Manual or other personnel manual and determine if procedures exist to monitor compliance with these policies.
- ✓ What are the Company's policies for severance, vacations, holidays, leaves of absence, sick days, personal days, and other similar programs?
- ✓ Provide information on the Company's process for recruiting new employees.

J. ENVIRONMENTAL MATTERS

- ✓ Provide details on all environmental litigation or proceedings currently involving the Company, including claims, amounts, names of counsel and assessment of likely outcomes (if applicable).
- ✓ Provide policy memoranda, programs, procedures, training courses, emergency plans etc. relating to the environment.

K. REAL ESTATE AND EQUIPMENT

- ✓ Provide details of all real property owned by the Company (and appraisals, if available); nature of the title held, and any mortgages, liens or encumbrances on the property; title documents confirming ownership; report by person authorized to conduct title searches.
- ✓ Provide details of any property rented or leased by the Company; nature of leasehold interest; copy of the leases; description of significant or unusual clauses.
- ✓ Provide all renting/leasing agreements with respect to machinery, equipment, automobiles not owned by the Company (if applicable).
- ✓ Provide details on the Company's depreciation policy.
- ✓ List of surplus or idle equipment.

L. MISCELLANEOUS

- ✓ Provide details on authorization necessary to transact business in foreign jurisdictions (if applicable).
- ✓ Provide details regarding investments in other corporations or entities.
- ✓ Provide names, addresses, and contacts of Company's professional advisors, including attorneys, auditors, lenders and investment bankers.

For more information, or a complimentary company value assessment, please contact:

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