

DUE DILIGENCE CHECKLIST

1.0	Basic Information and Background	
1.1	Copies of charter and bylaws or other organisational documents of (the "Company"), (names of material subsidiaries) and other subsidiaries of the Company.	
1.2	Board of directors, committee and shareholder minute books of the Company and list subsidiaries for the last (5) years	
1.3	Stock transfer records of the Company, (including list of all stockholders and number of shares held).	
1.4	Jurisdictions in which qualified to do business.	
1.5	Stockholders Agreement, Shareholder Voting Agreement and any other arrangements among stockholders, including amendments.	
2.0	Material Transactions	
2.1	Copies of (specify any material agreements or arrangements either generically or, if known, specifically).	
2.2	Copies of any other relevant documentation relating to any acquisitions, restructuring, reorganisations or dispositions.	
2.3	Copies of other partnerships, joint ventures or other similar contracts or arrangements.	
3.0	Contracts	
3.1	Debt, security, guarantee or similar instruments of the Company and its subsidiaries, including: <ul style="list-style-type: none"> • (Specify identified credit agreements, indentures, certificates of designation, warrant agreements, etc.) 	
3.2	Contractual approvals. Identify any contracts under which consents or approvals will be required in order to consummate the transaction or which will be subject to modification or acceleration as a result of the proposed transaction.	
3.3	Capital leases, contracts for the deferred purchase price of property and sale-leaseback arrangements, if any.	
3.4	Any agreement or arrangement that substantially limits the ability of the Company or any subsidiary to compete in any line of business, with any person or in any particular area.	
3.5	Other material contracts or arrangements, including inter-company contracts or arrangements.	
4.0	Government Regulation	
4.1	Identify any material governmental licenses or permits.	
4.2	Any governmental notifications or approvals required for the proposed acquisition?	
4.3	Review of principal statutes and regulations to which the Company is subject.	
5.0	Litigation	
5.1	List of all pending or threatened litigation and governmental investigations, identifying the parties to such litigation or investigations, the nature of the claim, and the amount at issue. <ul style="list-style-type: none"> • Copies of any litigation letters to accountants delivered in past (3) years. 	
6.0	Assets	
6.1	List of real property owned (now or sold in the last (5) years) by the Company, its subsidiaries and any predecessors.	
6.2	List of real property leased by the Company and its subsidiaries, together with <ul style="list-style-type: none"> • Location and brief description • Lease agreements and • If available, a summary of date, term and termination rights, assignability, renewal rights and rent. 	

6.3	List of material personal property owned, together with any security interests or encumbrances thereon.	
6.4	List of material personal property leased, together with <ul style="list-style-type: none"> • Lease agreements and • If available, a summary of date, term and termination rights, assignability, renewal rights and rent. 	
6.5	Intangibles, if any. List of any trademarks, trade names, copyrights, patents service marks and applications therefore used by the Company (and any related claims or litigation).	
7.0	<i>Employee Matters</i>	
7.1	Organisational chart indicating functions and reporting responsibilities.	
7.2	List of principal employees showing all actuarial data, including name, age, starting date, responsibilities, compensation and prior service/experience.	
7.3	Copies of employment and severance contracts and other agreements with employees.	
7.4	Union contracts/collective bargaining agreements in place at the Company, if any.	
7.5	List of labour and other employee-related disputes, grievances, arbitrations, unfair labour practices and litigation.	
7.6	Personnel manuals and policies. Policies regarding vacation, severance, disability benefits, supplemental unemployment benefits, pre-and post-retirement health and medical benefits, transfer and other material personnel matters.	
7.7	Company severance policies.	
7.8	Equal employment, age, discrimination, sexual harassment and occupational safety and health matters. Include descriptive list of all material disputes, complaints, investigations and other proceedings.	
7.9	Copies of all written pension and welfare benefit plans and arrangements of the Company and affiliates, together with all trust agreements and any amendments and written interpretations thereof. Legal/Regulatory reports for last two years relating to benefit plans of the company and its affiliates; the most recent actuarial valuation report prepared in connection with any such plan; Tax determination letters received with respect to any such plan; and summary plan description and registration statements relating to any such plan.	
7.10	Description of all other employee plans or arrangements and description of funding arrangements.	
7.11	Summaries of employee benefit plan and deferred compensation arrangement account balances for each employee of the Company, including savings and profit sharing plans, as well as information as to outstanding employee stock options, stock appreciation rights, restricted stock and other forms of stock based compensation.	
7.12	Personnel manuals and policies. Policies regarding vacation, severance, disability benefits, supplemental unemployment benefits, pre-and post-retirement health and medical benefits, transfer and other material personnel matters.	
8.0	<i>Environmental Matters</i>	
8.1	List and description of past and current investigations, proceedings, violations and lawsuits, if any. Description of conditions or activities forming the basis for any current or potential claim or proceeding with respect to environmental matters, including any potential "clean-up" sites.	
8.2	List and description of environmental permits and authorisations, if any.	
8.3	Has the Company (or predecessor) previously owned or leased sites that had known environmental problems or where operations were conducted that were likely to give rise to contamination?	
8.4	Copies of all environmental reports, audits, sampling, testing, analysis and investigations conducted by or for the Company or independent environmental auditors.	

8.5	Copies of any environmental indemnification agreements.																	
9.0	<i>Tax Matters</i>																	
9.1	Copies of each tax sharing agreement binding the Company or any of its subsidiaries; copies of any tax indemnity agreement or similar arrangement binding the Company or any of its subsidiaries. Copies of any partnership agreement binding or relating to the Company or any of its subsidiaries.																	
9.2	Current and past three year's consolidated financial statements of the Company and its subsidiaries; details concerning amounts included in reserves or accruals for taxes (including deferred taxes).																	
9.3	Copies of all material tax returns (including all attachments, schedules, work papers, etc.) filed or relating to all open years; list of all open years an applicable waivers.																	
9.4	Description of current audit issues.																	
9.5	Copies of latest tax authority agent's or similar reports.																	
9.6	Description of significant transactions (inter-company or otherwise) undertaken in the last 5 years.																	
9.7	Details concerning any net operating loss carry forwards; excess loss accounts; deferred inter-company gains.																	
9.8	Description of significant ordinary losses claimed on any return within the last 5 years.																	
9.9	Details concerning any investment tax credits carry forward amounts.																	
9.10	Present tax basis of Company assets.																	
10.0	<i>Insurance</i>																	
10.1	Copies and descriptions (including cost) of existing insurance policies, including liability retention limits or self-insurance.																	
10.2	Summary of claims experience under insurance policies for last 5 years.																	
11.0	<i>Company Policies and Other Compliance Matters</i>																	
11.1	Copies and descriptions of Company policies and compliance materials.																	
12.0	<i>Financial Information</i>																	
12.1	Accountant's letters to management for the last (3 - 1 sufficient?) fiscal years, and related responses.																	
13.0	<i>Financial - Income Statement</i>																	
13.1	Profit and Loss, Balance Sheets, and funds flow statements used for internal measurement purposes for last three years by brand/product line (if available) <ul style="list-style-type: none"> • Explanation of major variances from period to period • Unusual, non-repetitive items • Obtain copies of audited statements and details of any disputes 																	
13.2	Explain revenue recognition process: <ul style="list-style-type: none"> • Stage of completion vs. title passage, or other method, etc. 																	
13.3	Backlog: List backlog by product line, by year including both sales amount and number of units: <table style="margin-left: 40px; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: center;">01</td> <td style="text-align: center;">00</td> <td style="text-align: center;">99</td> </tr> <tr> <td style="padding-left: 20px;">Product Line A</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Sales</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Units</td> <td></td> <td></td> <td></td> </tr> </table> <ul style="list-style-type: none"> • Criteria for inclusion in the backlog? Profit margins of the backlog? • Jobs in backlog at a predicted loss? How would these be accounted for? • Any contracts in backlog vulnerable to ownership change? Other large prospects? 		01	00	99	Product Line A				Sales				Units				
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Sales																		
Units																		

13.4 Gross Margins <ul style="list-style-type: none"> Define gross margins (or cost of goods sold); split if possible between material, direct labour and overheads. 	
13.5 Break out expenses for the past 3 years by function and major expenses element (i.e. compensation and benefits, depreciation, utilities, marketing programmes, research and development programmes, etc.)	
13.6 Overheads <ul style="list-style-type: none"> Detail the components of overhead (labour, facilities, administration, corporate, etc.) 	
13.7 Provide details of expenses capitalised: tooling, software development, advertising, R&D, etc.	
13.8 Cost reduction and productivity improvement programmes <ul style="list-style-type: none"> Explain details, timing, costs, and benefits by the year they will occur 	
13.9 Cost of borrowing (interest expense/income).	
13.10 Drivers of other income/expense category.	
14.0 Financial - Balance Sheet	
14.1 Discuss accounting principles and provide data on: <ul style="list-style-type: none"> Cash/Marketable securities Any of the balances restricted? 	
14.2 Accounts Receivable <ul style="list-style-type: none"> Major accounts: any considered doubtful? Customary terms and ageing analysis (i.e. current, 30 days past due, etc.) Reserve policy, details on loss reserve/loss experience Balance by currency Any receivable sold with recourse 	
14.3 Inventories <ul style="list-style-type: none"> Account descriptions by location: raw materials, WIP, finished goods Costing Method: LIFO, FIFO, Average Cost, other Degree of obsolescence, what % of moving slow Physical inventory procedures, result of last 2 inventories Perpetual records kept Any consigned inventory 	
14.4 Fixed Assets <ul style="list-style-type: none"> Criterion of capitalisation Depreciation rates Discuss recent asset revaluation, if any? Amount? Timing? Has there been a recent asset appraisal? Results? Annual fixed assets expenditures for last 3 years 	
14.5 Other Assets Intangibles, goodwill, deferred taxes - how valued? Amortised?	
14.6 Accruals and Reserves to account for: <ul style="list-style-type: none"> Pension and payroll liabilities? Fully funded level if underfunding if applicable? Has the fund been audited by actuaries? What actuarial assumptions are being used? Reserve for taxes Warranty reserves Specific product complaints Environmental clean-ups Describe current/pending litigation and current reserve Describe any other off-balances sheet liability or guarantee 	
14.7 Borrowing Provide list and amounts of debts, interest rates, principle terms, and ability to pre-pay. Review of inflation/devaluation hedging techniques	

14.8 Equity/Net Worth Reconcile to operating statements for past 3 years Restricted retained earnings? Any mandatory preferred stock redemptions?	
14.9 Turnover Ratios	
15.0 Financial - Projections	
15.1 Provide next two years' estimate, budget and subsequent years: <ul style="list-style-type: none"> • Discuss key driving assumptions • Inflation - devaluation - volume and pricing changes - cost of labour and material, productivity, and new investments, etc. 	
16.0 Financial Miscellaneous	
16.1 Related Party Transactions <ul style="list-style-type: none"> • Discuss all related party selling purchasing relationships - volume per year terms, likelihood of continuing. 	
16.2 Capital Structure <ul style="list-style-type: none"> • Warrants, management or other stock options outstanding? 	
16.3 Foreign Exchange Exposure: What is current exposure by currency? Procedures used for hedging.	
16.4 Licenses <ul style="list-style-type: none"> • Technology/product licenses: expiration? Cost? Risk of renewal? Effect on sales and profitability of non-renewal • What licenses may be effected by change in ownership structure? 	
16.5 Suppliers <ul style="list-style-type: none"> • List principal suppliers and purchasing terms. • Any sole suppliers that are critical and not replaceable? 	
17.0 Business Practices	
17.1 Existence of and compliance with company policies?	
18.0 Sales and Marketing	
18.1 How are jobs/contracts priced, who has pricing and discount authority? Any recent changes? <ul style="list-style-type: none"> • How and at what time in the process are cost estimates put together? • Review and understand in detail how the bidding process works • Advertising/marketing techniques used over the past 3 years? Any recent changes? 	
18.2 Sales Force <ul style="list-style-type: none"> • Compensation: % salary, % commission, average amounts • External sales reps used? How compensated? 	
18.3 Major customers and volumes	
19.0 Manufacturing	
19.1 Plant Characteristics <ul style="list-style-type: none"> • Size, age, owned/leased, lease terms, ability to cancel lease, capacity, utilisation • Any hidden real estate values • Adequacy of utilities (i.e. power, water, heat, sewage) • Plant layout drawing showing existing and proposed equipment 	
19.2 Equipment Characteristics <ul style="list-style-type: none"> • Age, source or manufacturer, uptime % • Future investment needs? Any driven by environmental regulations? • Schedule of equipment required for transfer 	
19.3 Production Plan <ul style="list-style-type: none"> • Actual Production Plan for recent week plus amended version including proposed output 	

20.0 Quality	
20.1 Describe training, testing and audits, defect rate % and trend; copy of audit reports	
20.2 Market perceived quality - complaints ppm and trend	
20.3 What supplier quality testing is done, if any? Results?	