

Checklist for Due Diligence Documentation

A. Hygiene

Corporate Structure and History

- Articles of incorporation
- Corporate by-laws and operating agreements
- Minutes of Board of Directors and Shareholder meetings
- Past and Current Shareholders Agreements
- All other documents provided to directors and shareholders
- Officers of the Company
- Legal Counsel
- Auditor/Accountant

Financial Information

- Annual financial information since inception
 - Financial Statements - income statements, balance sheets, cash flows, and notes to financial statements
 - Extraordinary income or expense details
 - Explanation of any material write-down or write-offs
 - Summary of bad debt experience
- Current year monthly Financial Statements
 - Financial statement and trial balance current to previous month end
 - Accounts receivable and accounts payable aging schedule
 - Current backlog by customer
 - Details of any outstanding contingent liabilities
 - Bank statements for prior six months
- Capital Structure & Table
 - Current shares outstanding, including nature of different classes of shares
 - List of all stockholders with shareholdings, options, warrants, or notes
 - For non-arms length investors: relationship to founders or principals, any experience relevant to company, any expectation for advice or contributing role
 - For arms-length investors: business experience, prior investment experience, any expectations for advice or contributing role
 - Schedule of all options, warrants, covenants, rights, and any other potentially dilutive securities with exercise prices and vesting provisions
 - Summary of all debt instruments/bank lines with key terms and conditions
 - Off balance sheet liabilities

- Other financial information
 - Schedule of financing history for equity, warrants, and debt (date, investors, dollar investment, percentage ownership, implied valuation and current basis for each round)
 - Summary of current federal, provincial and foreign tax positions, including net operating loss carry-forwards
 - Discuss general accounting policies (revenue recognition, etc.)

Legal and Related Matters

- Pending lawsuits against the Company (detail on claimant, claimed damages, brief history, status, anticipated outcome, and name of the Company's counsel)
- Pending lawsuits initiated by the Company (detail on defendant, claimed damages, brief history, status, anticipated outcome, and name of Company's counsel)
- List of material patents, copyrights, licenses, trade secrets, trademarks and domain names
 - Status of application (issued and pending)
 - Jurisdiction of application
 - Copies of filed patents
 - Assignments of patents by founders to Company or licensing agreements between founders and Company
- Summary of insurance coverage/any material exposures
- Summary of material contracts
 - Long-term capital contracts
 - Contracts with consultants, agents, distributors, partners, etc.

B. Insight

Marketing Plan

- Market Opportunity
 - What is the key problem the business is solving?
 - What is the evidence that it exists? its severity? its frequency?
 - How big?
 - How are customers currently getting the 'job done'? what is the key short-coming or issue with the current solution?
 - How hard a problem is it to solve? What is enabling a solution?
- Product Solution
 - Description of each product
 - Major customers and applications
 - Historical and projected growth rates
 - Market share

- Speed and nature of technological change
 - Product roadmap - Timing of new products, product enhancements
 - Cost structure and profitability
 - Cost and other liabilities for any warranties or need for customer support
- Market Strategy and implementation
 - Market segmentation – what are the segments? How well defined? How well understood?
 - Target market
 - Why is it the most valuable to pursue?
 - What is the ‘Sweet spot’ in the target? What situation does the customer have to be in to readily buy?
 - Positioning Statement ...product? Company?
 - Key marketing risks identified
 - Marketing programs and examples, if any, of ability to execute
 - Awareness and lead generation
 - Evaluation and trial
 - Sale closing and fulfillment
 - Installation, on-boarding and environment
 - After sales support, engagement, follow-on sales and revenue growth per client, customer relationship management
- Sales Plan
 - Sales model
 - Distribution channels - North American and international distribution channels
 - Compensation
 - Sales Cycle
 - Major Customers and Partners
 - Status and trends of relationships
 - Prospects for future growth and development
 - Pipeline/funnel analysis
- Ability to implement marketing plan with current and projected budgets

Competition

- Description of the competitive landscape within each market segment including:
 - Market position and related strengths and weaknesses as perceived in the market place
 - Basis of competition (e.g. price, service, technology, distribution)
- Defences against competition within each market segment or product
- Primary market research conducted by Company
- Secondary market research
 - Survey of each market segment

- Economic and regulatory trends affecting each market segment

Technology Development Plan

- Description of R&D organization
 - Strategy
 - Key personnel
 - Major activities
- New Product Pipeline
 - Status and timing
 - Cost of development
 - Critical technology necessary for implementation
 - Risks

Management and Personnel

- Organization chart
- Historical and projected headcount by function and location
- Summary biographies of senior management, including employment history, age, service with the Company, years in current position
 - Compensation arrangements
 - Copies (or summaries) of key employment agreements
 - Benefit plan
 - Discussion of incentive stock plans
 - Copies of non-disclosure agreements and non-competition agreements if not already part of employment agreement
 - Significant employee relations problems, past or present
- Board of Directors
 - Members (Experience and Skills)
- Business Advisory Board
 - Members (Experience and Skills)

Financial Projections

- Up to date business plan
- Financial pro forma for the next three fiscal years
 - Revenue by product type, customers, and channel
 - Income statements, balance sheets, cash flow by month
 - Major growth drivers and prospects
 - Predictability of business
- Explanation of seasonality of business
- Industry and company pricing policies
- Economic assumptions underlying projections
 - different scenarios based on price and market fluctuations

- how and when will these be validated?
 - what is driving future valuation?
 - what are the milestones to drive valuation higher?
- Explanation of projected capital expenditures, depreciation, and working capital arrangements
- Financing requirements - Expectation of and need for external funding
 - Amount of and sources for external funding being sought, including other potential investors being courted
 - Expectation of grants and other non-dilutive (e.g. government) funding during next three years