

DUE DILIGENCE CHECKLIST

Assignment 01.0. CORPORATE ORGANIZATION AND HISTORY

- 1.1. Overview of corporate legal structure, banking relationships (other than transaction financing), organizational charts and a list of all subsidiaries, joint ventures and divisions of the Company and Related Companies.
- 1.2. Brief history and overview of the Company including date and place formed, founders and significant milestones.
- 1.3. Brief biographies of directors and officers of the Company and the Related Companies including position, age, number of years with the company, work experience and education.
- 1.4. List of ownership including details of any options, warrants or redemption plans.

02.0. PRODUCTS

- 2.1. Description of product lines.
- 2.2. Sales (dollar volume and percent) by product line.
- 2.3. Product prices, pricing dynamics and trends.
- 2.4. Gross margins earned by product line.
- 2.5. Plans for expansion of current product line.
- 2.6. Description of new products.
- 2.7. Impact of new products on sales.
- 2.8. Discussion of declining products.

03.0. THE MARKET

- 3.1. Discuss broad markets served by company.
- 3.2. Describe Company's target market segments; if possible, provide total market size for major products and market forecasts.
- 3.3. Describe industry trends and outlook.
- 3.4. If possible, provide other pertinent industry information, statistics or publications.

04.0. CUSTOMERS

- 4.1. Discuss channels of distribution by product.
- 4.2. List major customers by product line, with percentage of total sales attributable to each; highlight top ten customers.
- 4.3. Describe collections process and terms extended.
- 4.4. List of all accounts receivable and accounts payable reflected on the respective balance sheets of the Company and the Related Companies as of the end of the last 3 fiscal years and as of the date of this memorandum, specifying the name of each debtor or creditor, the amount owing, and including an aging.
- 4.5. Historical receivables write-offs and provision for losses.
- 4.6. Schedule of all loans or advances to any customer, dealer, distributor or other third party with whom the Company or the Related Companies conducted business.
- 4.7. Samples of vendor or other customer agreements.
- 4.8. All agreements or arrangements reflecting pricing commitments for products or services of the Company or the Related Companies.

05.0. MARKETING

- 5.1. Description of existing strategy for each product line and any contemplated changes, specifically discuss distribution, promotion, pricing and performance.
- 5.2. All comprehensive marketing plans (by location if available). Current and historical market research/customer surveys and market research into geographical expansion opportunities or new product development.
- 5.3. Description of marketing organization.
- 5.4. Description of direct and non-direct sales efforts.
- 5.5. Description of sales commissions paid.
- 5.6. Provide sales brochures, price lists, product literature and other selling material.
- 5.7. List trade shows normally attended.
- 5.8. Product presentation methods.
- 5.9. Marketing, public relations and any other advertising agreements or commitments of the Company and the Related Companies.

06.0. COMPETITION

- 6.1. List major competitors and describe in general their competing products, with specifics where necessary for a full understanding.
- 6.2. Breakdown of market by market share of company and its major competitors; forecast of future competition.
- 6.3. Evaluation of competitors' strengths and weaknesses relative to company's strengths and weaknesses.

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07.0. OPERATIONS

- 7.1. Operating Processes and Facilities.
 - a. Describe the operations for each product line.
 - b. Describe present usage of facilities and equipment.
 - c. List production capacities by facility and discuss current utilization of capacity (% of capacity, number of shifts/plant).
 - d. Discuss backlog in each product line.
 - e. Plans for new production facilities and equipment.
 - f. List the expected costs associated with expansion itemized by land, building and equipment.
 - g. Describe any operating improvements available through the use of new technology.
 - h. All information pertaining to quality assurance, including, but not limited to, compliance manuals, internal memoranda, correspondence, testing reports, agendas and minutes of meetings with heads of operation, safety directors and quality control directors.
- 7.2. Inventories
 - a. Inventory make-up (raw materials, work-in-process, finished goods) and age by product line.
 - b. Describe inventory controls.
 - c. Inventory reserves, write-offs and provision for losses.

08.0. SUPPLIERS

- 8.1. Describe major production materials.
- 8.2. Materials prices, pricing dynamics and trends.
- 8.3. List major suppliers; describe terms extended.
- 8.4. Accounts payable aging; discuss discounts taken.
- 8.5. Schedule of all loans or advances to any supplier.
- 8.6. Describe any major purchasing or supply contracts.
- 8.7. Trends in supplier relationships.

09.0. PROPERTIES

- 9.1. Description of all facilities of the Company and the Related Companies, including information concerning products produced or sold, size, location, age and ownership thereof.
- 9.2. Description of employees at each facility by job function and union status.
- 9.3. Schedule of all agreements to purchase or sell real property or tangible assets at some future date.

10.0. FINANCIAL AND ACCOUNTING MATTERS

- 10.1. Financial Statements and Projections
 - a. Historical financial statements of the Company and the Related Companies (five year and most recent interim period on a comparative basis with the previous year, consolidated and consolidating) including breakdown of fixed and variable expenses, balance sheets and detailed monthly profit and loss and cash flow statements for the most recent fiscal year.
 - b. Detailed annual (last three fiscal years and most recent interim period) management discussion and analysis of the Company's financial statements (absolute and percentage changes). Include discussion of one time charges or abnormally high expenses.
 - c. Five year projections of income statements, balance sheets and cash flow statements with description of key assumptions for sales, expenses, capital expenditures, working capital, etc. by product line. Break out depreciation and amortization, providing any pertinent schedules.
 - d. Capital expenditures required (maintenance) or planned (growth, efficiency, etc.) for existing locations or for any new locations, or any other material expenditures of this nature.
 - e. 1-yr. forward looking budgets historically prepared for each of the last 3 fiscal years, with variances to actual performance.
 - f. All loan agreements and all other documentation relating to indebtedness of the Company or the Related Companies (including loans, loan commitments, letters of credit, bonds, mortgages, deeds of trust, security agreements, guarantees, debt securities, leases, installments sales contracts, etc.).
 - g. All prior Stock Purchase Offerings and related materials from prior funding rounds.
 - h. Proposed term sheet for current funding round.
 - i. Recent compliance certificates concerning satisfaction of covenants contained in the obligations of the Company or the Related Companies for money borrowed or other debt and any other debt covenant compliance calculations if applicable.
 - j. Schedule of all security interests that relate directly or indirectly to the assets or to the conduct of the business of the Company and the Related Companies along with copies of security agreements and financing statements relating thereto.

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- k. Schedule of all short term and long term debt (including capitalized leases, guarantees and other contingent liabilities).
 - l. Schedule describing any off balance sheet and other liabilities of the Company and the Related Companies not otherwise disclosed or discussed in the most recent balance sheet.
 - m. Schedule of all operating leases.
 - n. Any agreements or arrangements restricting the ability of the Company or the Related Companies to upstream or downstream cash or other property, by distribution or otherwise.
- 10.2. Tax Matters
- a. Description of all NOL carryforwards available and any limitation on usage.
 - b. Listing and history of all tax examinations, determinations and assessments during the past 5 years or in progress (including income, withholding, excise, payroll, gross receipts, property and sales and use taxes).
 - c. List and description of all statute of limitation extensions now outstanding for any tax returns.
 - d. All tax sharing agreements.
 - e. All other material agreements, memoranda, correspondence and documents relating to taxes.
 - f. Schedule of all pending tax liabilities.
 - g. All corporate tax filings.
- 10.3. Accounting/Control
- a. Auditors review letters and annual management letters (last 5 years) and reports on accounting system, if any, and internal audit reports (last 5 years).
 - b. Reports by internal or outside auditors or consultants to the Boards of Directors of the Company or the Related Companies relating to internal corporate controls of the Company or the Related Companies.
 - c. Schedule of major accounting changes (last five years).
- 10.4. Other
- a. Copies of all appraisals of the assets or the value of the business of the Company and the Related Companies prepared in the last three years by investment bankers, appraisers, engineers, management consultants, accountants or others, including market studies and other types of reports, financial or otherwise.
 - b. Descriptions of any computer systems in operation.
 - c. Descriptions of any grant monies received.
- 11.0. ENVIRONMENTAL AND RELATED MATTERS**
- 11.1. All internal Company reports concerning environmental matters relating to current or former Company properties or properties formerly owned or operated.
 - 11.2. Information with respect to generation, treatment and disposition of hazardous substances and/or solid waste; history of problems with pollution control and environmental contamination; copies of any correspondence, statements or reports given by the Company, or any of the Related Companies to the Federal Environmental Protection Agency or any state department of environmental regulation or any similar state or local regulatory body, authority or agency with respect thereto.
 - 11.3. All notices, complaints, suits or similar documents sent to, received by or served upon the Company, or any of the Related Companies, by the Federal Environmental Protection Agency or any state department of environmental regulation or any similar state or local regulatory body, authority or agency.
 - 11.4. All other information regarding claims under environmental protection laws and any notices of violation with respect thereto, including any claims under, and notices of violation with respect to the Comprehensive Environmental Responses, Compensation, and Liability Act ("CERCLA") and the Resource Conservation and Recovery Act ("RCRA"); if applicable the CERCLA notification of hazardous substance disposal areas used by the Company and any RCRA notices of underground storage tanks; information with respect to OSHA citations and Outstanding enforcement actions.
 - 11.5. All Company or outside reports concerning compliance with waste disposal regulations (hazardous or otherwise), including, but not limited to, disposal of waste water.
- 12.0. REGULATORY MATTERS**
- 12.1. List of all material foreign, federal and state regulations and statutes to which the business of each of the Company and the Related Companies are subject and status of compliance with all such regulations and statutes.
 - 12.2. All material governmental or regulatory filings, authorizations, licenses, permits and contracts (including any schedules, amendments and any significant correspondence related thereto), performance bonds, payment bonds applied for by, or granted to, the Company or the Related Companies.
 - 12.3. All correspondence, internal memoranda, reports, notices of violation or default, and other documents, relating to status of compliance with foreign, federal and state regulations and statutes.
- 13.0. OTHER MATERIAL AGREEMENTS OR ARRANGEMENTS**
- 13.1. Joint venture or other collaborative agreements and profit sharing arrangements.
 - 13.2. Licensing agreements or arrangements.

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13.3. Management employment contracts, confidentiality agreements, and non-compete agreements.

13.4. Schedule of all patents, trademarks, service marks, trade names, copyrights, licenses, etc. (including those obtained in a foreign country), evidence of entitlement to the foregoing, including any registrations or applications pending, and documentation relating to infringement or alleged infringement of any of the foregoing.

13.5. Schedule of all insurance policies and arrangements (including property damage, third party liability, directors and officers liability, surety bonds, workers compensation and key employee insurance) along with a schedule of possible claims thereunder, cancellation notices or premium increases thereon.

13.6. Copies of all policies contained in the schedule of insurance. If policies have not been received, a copy of the expiring contract accompanied by a copy of the renewal binder should be substituted.

13.7. A five year loss history by line of insurance indicating paid claims, estimates and reserves (summary form). Please, provide historical self-insured retentions of deductibles.

13.8. Discuss insurance practices, including self-insurance and potential uninsured or underinsured liabilities.

13.9. Contracts or agreements with any affiliates, officers or directors.

13.10. Schedule of all consents and approvals required from, and all notices and filings required to be made to or with, any third party (including any federal, state, local or foreign governmental body or any third party) in connection with a change of control of the Company or the Related Companies.

13.11. A copy of the standard confidentiality agreement and a schedule of confidentiality agreements signed with any other entities. Note any deviations from the standard agreement, if any.

14.0. EMPLOYEE RELATIONS

14.1. A copy of the current employee handbook, including information about general incentive compensation, 401(k), and health plans.

14.2. Résumés of all officers, directors and salaried employees.

14.3. Schedules and copies of all collective bargaining and other union agreements.

14.4. List of all employees, including on-site personnel, by function, current salaries, bonus program (if any) summary, length of service and turnover.

14.5. List of employment agreements and copies thereof incentive, compensation and severance agreements.

14.6. Schedule of loans to employees by or guaranteed by the Company, the Related Companies or any of their affiliates.

14.7. Copies of the most recent report regarding post-retirement liabilities prepared in accordance with FASB and a schedule of life and/or health benefits for retired employees or dependents indicating whether liability for those benefits has been determined, whether and how these benefits have been funded and the number of retirees receiving benefits.

14.8. Copies of any contractual arrangements to contribute to any multiemployer plans for employees of the Company and the Related Companies.

14.9. Schedule of all employee claims (including worker's compensation, employment discrimination, unfair labor practices, etc.), and a description of material labor disputes, strikes or work stoppages which have occurred in the last three years, for the Company and the Related Companies.

15.0. INTRACOMPANY TRANSACTIONS

15.1. List of all transactions/business relationships among the Company, the Related Companies, any parent entity or other affiliate (j "intracompany transactions"), including, but not limited to: (a) borrowing arrangements or other credit arrangements, and (b) joint or shared activities including purchasing, marketing, sales, common offices, common management and (c) staff or other services provided.

15.2. For all such "intracompany transactions" (a) copies of agreements or other written descriptions of such arrangements and (b) fee schedules and amounts involved for each of the last 3 years.

16.0. ACQUISITION, DIVESTITURE AND REORGANIZATION MATTERS

16.1. Material documents relating to acquisitions or divestitures of business or assets (other than in the ordinary course) during last 5 years.

16.2. A list of divested operations over the last five years describing any liabilities the Company has retained from the sold operations, as well as liabilities that have been sold.

16.3. Details of any corporate reorganizations during the last 5 years.

17.0. LEGAL MATTERS

18.0. PUBLIC RELATIONS

18.1. Any printed materials relating to the business of the Company and the Related Companies.

18.2. Press clippings (last 3 years).

18.3. Analyst or industry reports (last 3 years).

18.4. Files of customer complaints (last 5 years).

19.0. MISCELLANEOUS