

Due Diligence Checklist



Building the Canadian Economy One Deal at a Time

Participants:	
Angel One Business Analyst	
Lead Investor	
DD Consultant	
Legal	

1. Corporate Structure and Corporate History	B.A	Lead	DD Consultant	Legal
A. Articles of incorporation				
B. Corporate by-laws and operating agreements				
C. Minutes of Board of Directors and Shareholder meetings				
D. Past and Current Shareholders Agreements				
E. All other documents provided to directors and shareholders				
F. Board of Directors				
i. Members (Experience and Skills)				
G. Business Advisory Board				
i. Members (Experience and Skills)				
H. Officers of Company				
I. Legal Counsel				
J. Auditor				
2. Financial Information	B.A	Lead	DD Consultant	Legal
A. Annual financial information since inception				
i. Audited income statements, balance sheets, cash flows, and footnotes				
ii. Extraordinary income or expense details				
iii. Explanation of any material write-downs or write-offs				
iv. Summary of bad debt experience				
B. Current Financials				
i. Financial statement and trial balance current to previous month end				
ii. Accounts receivable and accounts payable aging schedule				
iii. Current backlog by customer (if any)				
iv. Details of any outstanding contingent liabilities				
v. Bank statements for prior six months				
C. Financial Projections				
i. Up to date business plan				
ii. Financial plan for the next three fiscal years				
a) Revenue by product type, customers, and channel				
b) Income statements, balance sheets, cash flow by month				
iii. Major growth drivers and prospects				
iv. Predictability of business				
v. Explanation of seasonality of business				
vi. Industry and company pricing policies				
vii. Economic assumptions underlying projections (different scenarios based on price and market fluctuations)				
viii. Explanation of projected capital expenditures, depreciation, and working capital arrangements				
ix. Expectation of and need for external funding				
a) Amount of and sources for external funding being sought, including other potential investors being courted				
b) Expectation of grants and other government funding during next three years				

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D. Capital Structure				
i. Current shares outstanding, including nature of different classes of shares				
ii. List of all stockholders with shareholdings, options, warrants, or notes				
a) For non-arms length investors: relationship to founders or principals, any experience relevant to company, any expectations for advice or contributing role				
b) For arms-length investors: business experience, prior investment experience, any expectations for advice or contributing role				
iii. Schedule of all options, warrants, covenants, rights, and any other potentially dilutive securities with exercise prices and vesting provisions				
iv. Summary of all debt instruments/bank lines with key terms and conditions				
v. Off balance sheet liabilities				
E. Other financial information				
i. Schedule of financing history for equity, warrants, and debt (date, investors, dollar investment, percentage ownership, implied valuation and current basis for each round)				
ii. Summary of current federal, provincial and foreign tax positions, including net operating loss carry- forwards				
iii. Discuss general accounting policies (revenue recognition, etc.)				
3. Products	B.A	Lead	DD Consultant	Legal
A. Description of each product				
i. Major customers and applications				
ii. Historical and projected growth rates				
iii. Market share				
iv. Speed and nature of technological change				
v. Timing of new products, product enhancements				
vi. Cost structure and profitability				
vii. Cost and other liabilities for any warranties or need for customer support				
4. Competition	B.A	Lead	DD Consultant	Legal
A. Description of the competitive landscape within each market segment including:				
i. Market position and related strengths and weaknesses as perceived in the market place				
ii. Basis of competition (e.g., price, service, technology, distribution)				

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B. Defences against competition within each market segment or product				
C. Primary market research conducted by Company				
D. Secondary market research				
i. Survey of each market segment				
ii. Economic and regulatory trends affecting each market segment				
5. Marketing, Sales, and Distribution	B.A	Lead	DD Consultant	Legal
A. Strategy and implementation				
i. Discussion of North American and international distribution channels				
ii. Positioning of the Company and its products				
iii. Marketing opportunities/marketing risks				
iv. Description of marketing programs and examples, if any, of recent marketing/product/public relations/media information on the Company				
B. Major Customers and Partners				
C. Principal avenues for generating new business				
D. Sales force model				
i. Compensation				
ii. Sales Cycle				
E. Ability to implement marketing plan with current and projected budgets				

6. Research and Development	B.A	Lead	DD Consultant	Legal
A. Description of R&D organization				
i. Strategy				
ii. Key Personnel				
iii. Major Activities				
B. New Product Pipeline				
i. Status and Timing				
ii. Cost of Development				

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iii. Critical Technology Necessary for Implementation				
iv. Risks				
7. Management and Personnel	B.A	Lead	DD Consultant	Legal
A. Organization Chart				
B. Historical and projected headcount by function and location				
C. Summary biographies of senior management, including employment history, age, service with the Company, years in current position				
i. Reference calls for key founders				
ii. Compensation arrangements				
a) Copies (or summaries) of key employment agreements				
b) Benefit plans				
iii. Discussion of incentive stock plans				
iv. Copies of non-disclosure agreements and non-competition agreements if not already part of employment agreement				
iv. Significant employee relations problems, past or present				
8. Legal and Related Matters	B.A	Lead	DD Consultant	Legal
A. Pending lawsuits against the Company				
(detail on claimant, claimed damages, brief history, status, anticipated outcome, and name of the Company's counsel)				
B. Pending lawsuits initiated by Company				
(detail on defendant, claimed damages, brief history, status, anticipated outcome, and name of Company's counsel)				
C. List of material patents, copyrights, licenses, trade secrets, trademarks and domain names				
i. Status of application (issued and pending)				
ii. Jurisdiction of application				
iii. Copies of filed patents				
iv. Assignments of patents by founders to Company or licensing agreements between founders and Company				
D. Summary of insurance coverage/any material exposures				
E. Summary of material contracts				

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i. Long-term capital contracts				
ii. Contracts with consultants, agents, distributors, partners, etc.				