

THE ULTIMATE FINANCIAL DUE DILIGENCE CHECKLIST

The merger and acquisition market remains active even through trying times. Over the past two years, an average of over 13,000 deals were completed for small and mid-size businesses—that's more than 35 deals a day. The act of buying or selling a business can be complex and time consuming. Our team has provided insight into the process behind financial due diligence to help review the big picture, with a step-by-step checklist throughout the process

All our engagements are built to fit your needs to ensure you obtain the value and service needed to complete that acquisition on time and for great value.

TARGETING COMPANY OVERVIEW

- Answers to questions that will help us understand the business at a deeper level
 - Why are you selling your business?
 - Have there been any efforts to sell your business in the past?
 - Have there been any recent acquisitions and/or divestures by the company in the past?
 - What is the geographical presence of the company?
- Copy of their most recent business plan
- Organization structure chart
- Legal entity structure chart
- Reporting relationship chart
- A list of all officers, directors, and stockholders of the Company
- List of subsidiaries, joint ventures, partnerships with other organizations
- Partnership agreements and technical collaborations
- Board meeting minutes
- Copies of any analyst or other market reports concerning the Company known to have been issued within the last three years
- Copies of any studies prepared by the Company regarding the Company's insurance currently in effect and self-insurance program (if any), together with information on the claim and loss experience thereunder
- Any of the following documents filed by the Company or affiliates of the Company and which contain information concerning the Company

OVERALL FINANCIAL HEALTH

- CPA-prepared financial statements of the company for the historical period
- Accountant's management letter
- Reconciliation of the management accounts for the historical period
- Cash flow analysis
- All current budgets and projections including projections for product sales and cost of sales
- Listing of any cash restrictions
- Any significant one-time events detailed out
- Investment agreements executed by the company
- Details of any changes made in accounting policies
- Working capital details for each quarter, and reasons for significant variation
- Overview of any changes in the shareholding pattern in the last two years
- Monthly operational statistics

REVENUE AND CUSTOMERS

- A detailed description of the product and services offered
- Monthly and quarterly revenue (disaggregation levels will be determined upon discovery meetings)
- Revenue recognition policy
- Ledger accounts and transaction reports of all revenue
- List of the 15 largest customers for each product or service of the Company
- List of major competitors for each business segment or product line
- An up-to-date schedule of unbilled revenue with customers
- Major commercial terms agreed with customers
- Backlog reports
- A list of key customer changes in past three years
- A current accounts receivable aging report by customer and invoice
- If contracts are prevalent, copies of significant customer contracts
- Detailed analysis for the basis for any allowance for doubtful accounts

EXPENSES

- Ledger accounts and transaction reports of all major expenses
- List of the 15 largest suppliers for each product or service of the Company
- Details of insurance cost
- Breakdown of legal expenses and professional charges
- Detailed marketing expense reports
- Detailed technology and management expense reports

EMPLOYEES AND RELATED BENEFITS

- Copies of the Company's employee benefit plans as most recently amended, including all pension, profit sharing, thrift, stock bonus, ESOPs, health and welfare plans (including retiree health), bonus, stock option plans, direct or deferred compensation plans and severance plans
- Copies of all employment contracts, consulting agreements, severance agreements, independent contractor agreements, non-disclosure agreements and non-compete agreements relating to any employees of the Company
- Copies of any collective bargaining agreements and related plans and trusts relating to the Company (if any). Description of labor disputes relating to the Company within the last three years. List of current organizational efforts and projected schedule of future collective bargaining negotiations (if any)
- Listing of any key employees vital to operations
- Details of salary increments
- Details of key open positions in the business
- Employee handbook or manual
- Listing of any employee injuries with supporting detail
- Listing of any discrimination claims and related legal suits
- Listing of any current employee loans outstanding and related details

INTELLECTUAL PROPERTY

- List of all patents, trademarks, tradenames, service marks and copyrights owned or used by the Company, all applications therefor and copies thereof, search reports related thereto and information about any liens or other restrictions and agreements on or related to any of the foregoing.
- Detail listing of any licensing or royalty income and any licensing or royalty expenses

RELATED PARTY MATTERS

- Copies of all contracts with related parties
- List of affiliated parties specifying the nature of the relationships with said parties and companies
- Details of transactions (e.g. purchase, sales, and loans to or from) with the related parties
- Details of resources and facilities shared with other businesses
- General ledger accounts of related parties

SUPPLY CHAIN MATTERS

- Detailed analysis and description of the supply chain process
- Has there been any supply restrictions or issues in the past five years? If so, please describe
- Detailed listing of transportation costs and those providers of that service
- Listing of all current supply agreements under contractual obligation
- Inventory valuation, including turnover rates and statistics, gross profit percentages and obsolescence analyses including inventory of each product which is part of assets to be sold
- Detailed report of the company's last three years of physical and/or cycle counting reports with adjustments

FIXED ASSETS AND FACILITIES

- Description of any real estate owned by the Company
- Schedule of fixed assets, owned or used by the Company, including the identification of the person holding title to such assets and any material liens or restrictions on such assets
- Detailed list of any construction in progress
- Detailed list of capital expenditures from the past three years
- Detailed list of capital expenditures strategic plan
- Detailed list and related general ledger accounts for any repair and maintenance expenses incurred

TARGET COMPANY LIABILITIES AND DEBT STRUCTURE

- Detailed listing of account payable aging by supplier and invoice
- Detailed lease schedule (finance and operating)
- Detailed listing of all accrual accounts and if relevant, description of how the accruals were established
- Providing copies of all debt agreements (lines of credit, loans, senior debt, swap agreements, etc.)
- Providing any amortization schedules related to debt agreements noted above
- Identification of any asset being used as collateral
- Information regarding any material contingent liabilities and material unasserted claims and information regarding any asserted or unasserted violation of any employee safety and environmental laws and any asserted or unasserted pollution clean-up liability
- Description of principal banking and credit relationships (excluding payroll matters), including the names of each bank or other financial institution, the nature, limit and current status of any outstanding indebtedness, loan or credit commitment and other financing arrangements

EQUITY AND OWNERSHIP MATTERS

- Capitalization of the Company, including all outstanding capital stock, convertible securities, options, warrants and similar instruments
- List of security holders of the Company (including option and warrant holders), setting forth class and number of securities held
- Copies of any voting agreements, stockholder agreements, proxies, transfer restriction agreements, rights of first offer or refusal, preemptive rights, registration agreements or other agreements regarding the ownership or control of the Company.
- Listing of any approved dividend but not yet paid
- Any legally binding agreement for buyouts

TAXES AND ENTITY LEGAL STRUCTURE

- Copies of returns for the three prior closed tax years and all open tax years for the Company (including all federal and state consolidated returns) together with a work paper therefor wherein each item is detailed and documented that reconciles net income as specified in the applicable financial statement with taxable income for the related period
- Audit and revenue agents reports for the Company; audit adjustments proposed by the Internal Revenue Service for any audited tax year of the Company or by any other taxing authority; or protests filed by the Company
- Settlement documents and correspondence for last six years involving the Company.
- Agreements waiving statute of limitations or extending time involving the Company.
- Description of accrued federal, state, and local withholding taxes and FICA for the Company
- List of all state, local and foreign jurisdictions in which the Company pays taxes or collects sales taxes from its retail customers (specifying which taxes are paid or collected in each jurisdiction)
- If applicable, detailed analysis and support for any deferred tax position
- If applicable, detailed analysis and support for any FIN 48 position
- Copy of TAN, VAT, and other registration certificates

LEGAL ISSUES (as it relates to financial implications)

- Listing of all current lawsuits, overview of those lawsuits, potential exposure, and what (if any) accrual has been established
- Listing of all prior lawsuits in the last three years, overview of those lawsuits and monetary damages paid exposure
- Listing of all legal invoices paid to law firms for the prior three years
- Copies of all attorneys' responses to audit inquiries
- Copies of all letters of counsel to independent public accountants concerning pending or threatened litigation
- Any reports or correspondence related to the infringement by the Company or a third party of intellectual property rights
- Listing of any and all reports on environment matters, including but not limited to asbestos surveys, workplace safety, health regulations, notices of violations on the environment, listing of underground storage tanks, government required filings
- Schedule of the latest dates of inspection of the Company's facilities by each regulatory authority that has inspected such facilities.
- Description of the potential effect on the Company of any pending or proposed regulatory changes of which the Company is aware.
- Schedule of any significant U.S. import or export restrictions that relate to the Company's operations