

Due Diligence Checklist

I. COMPANY/INDUSTRY OVERVIEW

A. General Characteristics

- Factors driving the market
- Size, trend and growth outlook
- Fragmentation of the industry
- Price volatility
- Cyclical/seasonality

B. Industry Condition

- Rate of sales and earnings growth
- Short-term and long-term outlook

C. Barriers to Entry

- Existing participants
- Capital requirements
- Brand recognition
- Technological development
- Economies of scale
- Government regulation
- Long-term contracts
- Stability/turnover of competition over past three years

D. Customers

- Geographic diversification/trends
- Concentration/pricing power
- Affiliated sales

E. Competitors

- Identity & market share
- Relative cost structure
- Financial condition
- Drivers: price/service/quality/technology
- Importance of off shore competitors

F. Products

- Quality and feature comparison
- Life of products and trends
- Accounting treatment of product costs (capitalized or expensed)
- Profit contribution
- Market share by product Identity & market share
- Dependence on single item
- Private label
- Potential product liability issues
- Importance of off shore competitors

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G. Industry Regulation

- Product registration or standards
- Thrift and trade restrictions

II. HISTORICAL FINANCIAL INFORMATION

A. Analysis of Revenues, Margins and Cash Flows

- Any significant changes in accounting policies
- Adj. for expected operating synergies—Acq. etc.

B. Working Capital Relationships when Volume Increases/Decreases

- Analysis of aging of accounts receivable/ payable days analysis
- Write-offs of accounts receivable and recovery history
- Reserve for bad debts—any significant customers in financial distress

C. Inventory

- FIFO/LIFO reserves
- Relationship to recent sales and historical trends
- Realize-ability and possible obsolescence

D. Tax Issues

- Availability of investment tax credits, tax loss carry-forwards, NOL's
- Deferred taxes - timing between book and cash tax return

E. Capital Expenditures

- Discretionary versus non-discretionary expenditures
- Relationship of historical CAPX to depreciation/status of plant

F. Other considerations

- Concentration of customers/suppliers
- Significant inter-company transactions and related party arrangements
- Off-balance sheet assets or liabilities
- Contingent liabilities, if any
- Environmental liabilities

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III. FINANCING AGREEMENTS

A. Material Loan (Credit) Agreements and Indentures

- Principal terms--rates, maturity, etc.)
- Need for and status of Letters of Credit programs
- Review of collateral and or mortgage pledges
- Review of covenants (maintenance tests, limitations on debt, etc.)
- Prepayment provisions
- Debt ratings - historical debt service requirements

B. Operating and Capital Leases

- Accounting treatment
- Terms, cost, and duration—Estimate of rejection liability
- Other forms of equipment financing?

IV. LEGAL ISSUES

A. Patents, Trademarks, Trade Names and Licenses

B. Assign-Ability of Contracts with Franchises, Leases, Suppliers and Customers

C. Currently Outstanding Litigation

D. Environmental or Occupational Safety Issues

E. History of Legal Action and Liability in the Industry

V. MANAGEMENT AND DIRECTORS

A. Compensation of Current Management

- Employee contracts and service agreements
- Incentive awards - stock option plans

B. Severance Requirements

- Percentage ownership equity by management and employees

C. Board of Directors

- Identity of members
- Directorships in other companies (conflicts of interest)
- Related transactions

D. Affiliate Transactions

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VI. EMPLOYEE-RELATED ISSUES

A. Are there any Unionized Members of the Work Force?

- If so, any history of strikes?
- If not, have there been attempts to organize the work force
- Which union(s)?
- Expectation on next round of contract renewal

B. Incentive/Retirement Plans

- Funding status of all plans and obligations including:
- Amount overfunded/underfunded
- Ability and cost of terminating plans to be replaced with annuities

VII. SHAREHOLDERS

A. Security Issues

- Rights of each class
- Stock options
- Stockholder agreements

B. Number of Shareholders

- Major positions
- Geographic distribution

VIII. GOVERNMENT REGULATIONS AND IMPACT

A. Overview of Current Government Regulations

B. Historical Compliance with Regulations