

# Selective Financial Services

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## 1.1.3 Sample Due Diligence Checklist

### 1.00 FINANCIAL INFORMATION

- 1.10 Annual and quarterly financial information for the past three years
- 1.11 Income statements, balance sheets, cash flows, and footnotes
- 1.12 Planned versus actual results
- 1.13 Management financial reports
- 1.14 Breakdown of sales and gross profits by:
  - 1.14.1 Product Type
  - 1.14.2 Channel
  - 1.14.3 Geography
- 1.15 Current backlog by customer (if any)
- 1.16 Accounts receivable aging schedule
  
- 1.20 Financial Projections
- 1.21 Quarterly financial projections for the next three fiscal years
  - 1.21.1 Revenue by product type, customers, and channel
  - 1.21.2 Full income statements, balance sheets, cash
- 1.22 Major growth drivers and prospects
- 1.23 Predictability of business
- 1.24 Risks attendant to foreign operations (e.g., exchange rate fluctuation, government instability)
- 1.25 Industry and company pricing policies
- 1.26 Economic assumptions underlying projections (different scenarios based on price and market fluctuations)
- 1.27 Explanation of projected capital expenditures, depreciation, and working capital arrangements
- 1.28 External financing arrangement assumption
  
- 1.30 Capital Structure
- 1.31 Current shares outstanding
- 1.32 List of all stockholders with shareholdings, options, warrants, or notes
- 1.33 Schedule of all options, warrants, rights, and any other potentially dilutive securities with exercise prices and vesting provisions.
- 1.34 Summary of all debt instruments/bank lines with key terms and conditions
- 1.35 Off balance sheet liabilities
  
- 1.40 Other financial information
- 1.41 Summary of current federal, state and foreign tax positions, including net operating loss carry forwards
- 1.42 Discuss general accounting policies (revenue recognition, etc.)
- 1.43 Schedule of financing history for equity, warrants, and debt (date, investors, dollar investment, percentage ownership, implied valuation and current basis for each round)

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## 2.00 PRODUCTS

- 2.10 Description of each product
- 2.11 Major customers and applications
- 2.12 Historical and projected growth rates
- 2.13 Market share
- 2.14 Speed and nature of technological change
- 2.15 Timing of new products, product enhancements
- 2.16 Cost structure and profitability

## 3.00 CUSTOMER INFORMATION

- 3.10 List of top 15 customers for the past two fiscal years and current year-to-date by application (name, contact name, address, phone number, product(s) owned, and timing of purchase(s))
- 3.20 List of strategic relationships (name, contact name, phone number, revenue contribution, marketing agreements)
- 3.30 Revenue by customer (name, contact name, phone number for any accounting for 5 percent or more of revenue)
- 3.40 Brief description of any significant relationships severed within the last two years. (name, contact name, phone number)
- 3.50 List of top 10 suppliers for the past two fiscal years and current year-to-date with contact information (name, contact name, phone number, purchase amounts, supplier agreements)

## 4.00 COMPETITION

- 4.20 Description of the competitive landscape within each market segment including:
- 4.21 Market position and related strengths and weaknesses as perceived in the market place
- 4.22 Basis of competition (e.g., price, service, technology, distribution)

## 5.00 MARKETING, SALES, AND DISTRIBUTION

- 5.10 Strategy and implementation
- 5.11 Discussion of domestic and international distribution channels
- 5.12 Positioning of the Company and its products
- 5.13 Marketing opportunities/marketing risks
- 5.14 Description of marketing programs and examples of recent marketing/product/public relations/media information on the Company



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- 5.20 Major Customers
- 5.21 Status and trends of relationships
- 5.22 Prospects for future growth and development
- 5.23 Pipeline analysis
  
- 5.30 Principal avenues for generating new business
  
- 5.40 Sales force productivity model
- 5.41 Compensation
- 5.42 Quota Average
- 5.43 Sales Cycle
- 5.44 Plan for New Hires
  
- 5.50 Ability to implement marketing plan with current and projected budgets

### **6.00 RESEARCH AND DEVELOPMENT**

- 6.10 Description of R&D organization
- 6.11 Strategy
- 6.12 Key Personnel
- 6.13 Major Activities
  
- 6.20 New Product Pipeline
- 6.21 Status and Timing
- 6.22 Cost of Development
- 6.23 Critical Technology Necessary for Implementation
- 6.24 Risks

### **7.00 MANAGEMENT AND PERSONNEL**

- 7.10 Organization Chart
- 7.20 Historical and projected headcount by function and location
- 7.30 Summary biographies of senior management, including employment history, age, service with the Company, years in current position
- 7.40 Compensation arrangements
- 7.41 Copies (or summaries) of key employment agreements
- 7.42 Benefit plans
- 7.50 Discussion of incentive stock plans
- 7.60 Significant employee relations problems, past or present
  
- 7.70 Personnel Turnover
- 7.71 Data for the last two years
- 7.72 Benefit plans

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## 8.00 LEGAL AND RELATED MATTERS

### 8.10 Pending lawsuits against the Company

(detail on claimant, claimed damages, brief history, status, anticipated outcome, and name of the Company's counsel)

### 8.20 Pending lawsuits initiated by Company

(detail on defendant, claimed damages, brief history, status, anticipated outcome, and name of Company's counsel)

### 8.30 Description of environmental and employee safety issues and liabilities

#### 8.31 Safety precautions

#### 8.32 New regulations and their consequences

### 8.40 List of material patents, copyrights, licenses, and trademarks

(issued and pending)

### 8.50 Summary of insurance coverage/any material exposures

### 8.60 Summary of material contacts

### 8.70 History of SEC or other regulatory agency problem, if any

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