

Ann Arbor SPARK Due Diligence Guide

This checklist is provided as a guide for preparing for the interview with potential investors and bank lenders. Many of the questions may be answered in the business plan.

General Background

- History of the company and any predecessor companies.
- Why are you in this business?
- What are your company's short- and long-term objectives?
- If academics, what are your plans regarding your academic position?
- What are your company's financial needs?
- What is your company's unique advantage?

Management and Human Resources

- Organizational chart.
- What is the makeup of your Board of Directors?
- Who are your professional advisors (accountant, corp./patent attorney, consultants, etc.)?
- Are there any gaps in the management team, explain?
- Are there any anticipated management changes, explain?
- Are there any employment contracts or agreements, explain?
- Are there any confidentiality agreements, explain?
- DOB and SS# and address for principal(s) background check.
- Total number of employees.
- Do you have an employee handbook?
- What are your current and anticipated staffing needs?

Products or Services Offered

- How will customers use your product or service?
- What benefit(s) will the customers value from your product or service?
- How does your product or service compare:
 - Price?
 - Quality?
 - Current method?
 - Competitive product?
 - Service?
 - Availability?
 - Engineering?
 - Credit terms?
- Is there patent, trademark or trade secret protection?
 - If so, who owns it? Is there a license from the owner of the technology?

Market

- Is demand basic or created?
- Is the market mature?
- What are the trends in the industry?
- What is the geographic market?
- Is there an opportunity for exporting?
- Where is the growth opportunity? (Roll-up strategy? M&A's?)
- How is your market segmented?

Customers (if they exist)

- Who are your customers, or who will they be?
- Why are customers buying or why would they buy from your company?
- Are there any long-term purchase agreements?
- Is there any trend among customers toward:
 - Integrating the manufacturing of this product into their operations?
 - Purchasing substitute products?
 - Switching suppliers?

Competition

- Who are your major competitors?
- What is their unique advantage?
- Are they growing?
- How do they compare on key buying issues?
- What are their plans?
- How will they react?

Sales and Marketing

- What are your pre-contract sales costs?
- When is your sale closed?
- How much custom engineering is required?
- What are the upgrade obligations? Are they clearly defined?
- Is your product/service well documented?
- How much engineering support is required on installation and in operation?
- Do you have a direct sales force? What is its size? Cost? Effectiveness?
- Are sales representatives used? How are they selected and compensated?
- What are your channels of distribution?
- What advertising and sales promotion practices are used?
- What is your sales forecast and justification?
- Who are your target markets?
- How is your product priced?
- What are your company's credit policies?

Operations

- Fixed assets, location and condition.
- Location and description of facilities.
- Assessed and fair market value.
- List of your future facility and equipment needs.
- Explain your basic manufacturing process?
- How are procedures being modified to improve efficiency?
- What system is in place to assure the quality of your product or service?
- What are your critical raw materials?
- Who are your critical suppliers, contracts?
- What factors might cause a substantial delay in production?
- Status of inventory, including level and obsolescence.
- Do you have any contractual obligations other than those requested here?

Financial Considerations

- Audited financial statements.
- Capitalization Table.
- Do you have any grants? Do you have any grant opportunities?
- Sales backlog information.
- Aging reports – both A/R and A/P (most recent).
- Company's tax I.D. number.
- What are your projected financials, including cash flow?
- What are your sources and uses of funds?
- Do you have a strong cost accounting system in place?
- Is your insurance coverage adequate?
- What is your tax liability and payment record?
- What is your worst-case scenario?

Legal Matters

- Articles of Incorporation.
- Bylaws and Amendments.
- Minutes of Directors' and Shareholders' meetings.
- Certificate of Good Standing from the State of Michigan.
- Subsidiary listing.
- Contractual agreements.
- Stock Option Plan.
- Do you have any current or anticipated litigation (State or federal agency)?
- Regulatory hurdles (e.g., FDA, animal use, clinical studies, GMP, ISO)
- Environmental regulation/violations (waste discharge, RCRA, OSHA, EPA)?
- Warranty and service guarantees.
- Do you have any product liability?