

GENERIC DUE DILIGENCE LIST

Compiled by: Cohen Strategy Group, LLC

MANAGEMENT

Management Team

1. Obtain a high-level organization chart and job description indicating present management areas of responsibility.
2. How does management experience in the past and the responsibilities of each person on the team compare with present job requirements? How does salary level compare? Ask for detailed resumes (including past experience, salary and promotion history, and academic qualifications) and business and personal references for each key manager.
3. Are there any gaps in the present management structure? What about extra “fat” that could potentially be trimmed?
4. Are there any loans to or from key managers?
5. What are the present salary levels of management? What percentage of total compensation do bonuses represent? What other prerequisites exist? Ask for detailed compensation package summaries.
6. Are key executives provided with performance-based compensation which aligns their interests with those of the shareholder(s)?
7. Are there any incentive compensation plans in place that would be triggered as a result of a change in control? Severance agreements? Retention bonuses? Ask to see copies of all relevant documents.
8. Are there any employment contracts or non-compete agreements that have been entered into with key managers? Ask to see copies of all relevant documents.
9. Has there been any turnover in the management group recently? How long has the present management team been in place?

Management Structure and Decision-Making

10. Are there any functioning committees? What functions do they perform? Who sits on them? How often do they meet? What records are kept?
11. Who are the board members? Have there been any recent changes in board membership? What are their backgrounds and qualifications? What compensation do they receive? What actual or potential stock ownership positions do they have?



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12. What are the duties, responsibilities, and authorities of each member of the management group?
13. Are adequate controls/separation of responsibility in place to insure necessary control over important functions, especially those which involve cash?
14. What is the strategy for filling key management positions? Can internal development alone meet the requirements or will inter-company transfers or outside hiring be required? Are outside search firms used?
15. Does the company have key employee life insurance and disability insurance on any of its officers?
16. Does the company have an enhanced or separate pension plan, deferred compensation plan, or severance plan for key executives? If so, ask to see relevant copies.

Management Ownership

1. How much of the company does each member of the management team own? Request details or look in the proxy statement (if the company is public) for more detailed information.
2. How much of the company do the outside/non-management directors own? Are they motivated to achieve long term capital gains?
3. Do any individuals outside the company own a large percentage of the company? What is their role in the company?
4. Does the company have a stock option program? If so, request details.
5. Does the company or any of its officers own 10 percent or more of the equity of the company?

INDUSTRY INFORMATION

Competition

1. Who are the major players in this industry? Are there any expected new entries or other potential competitors? Do imports pose a threat? Have existing players announced capacity expansion plans?
2. What is the financial condition of the industry? Are players highly or conservatively leveraged? How much cash do they have?



3. What are the general strategies being followed by each of the industry players? Is there an un-served or underserved niche which could potentially be exploited?
4. What are the present and expected future competitive shares of the market by competitor by market segment?
5. What is the relative ease of entry into the industry? What are the capital and other requirements for entry? What are the barriers to entry?
6. How does the company compare with its competition (i.e., strengths and weaknesses)?
7. Compare and contrast the company's product(s) service(s) with those of the competition. What sustainable competitive advantage does the company have over the competition?
8. Obtain product literature from each of the company's competitors.
9. Obtain annual reports and other literature on the competition.

Industry structure

1. What is the number of companies in the industry by size and category, national and international?
2. To what degree is the industry concentrated in one or a few companies? Would this potentially pose a threat to a potential transaction from a Hart-Scott-Rodino (antitrust) perspective?
3. Which way are mergers and acquisitions trending? Are they vertical, horizontal, or in some other form? Is the industry consolidating or fragmenting?
4. How is the industry structured in terms of geographical location, product lines, channels of distribution, pricing policies, degrees of integration, and the type of customers?
5. What are the various barriers to entry by new companies into this industry?
6. Is the industry cyclical? Seasonal?
7. How has the industry performed financially in the past? What is expected for the future?
8. What are the key drivers of demand?
9. What are the key inputs/raw materials to the industry?



10. What are the natures of relationships with suppliers in this industry? Customers? Government?
11. Who are the main customers of this industry? How much power do they have over the industry players?
12. Who are the main suppliers of this industry? How much power do they have over the industry players?

Size and Nature of Market

1. How big is the overall market served, both domestic and internationally? List the total dollar size of the market by each major product category.
2. What is the overall market annual growth rate for each product category or market segment, both historically and projected for the future? What will fuel growth in demand?
3. How is the market segmented? Which segments are expected to grow most rapidly? Obtain available sales breakdowns by territory, product, customer, industry, product end use, domestic, international, etc. How do these compare with overall market segments? With future expected sales?

Government Regulation

1. To what extent is the company's industry regulated by the government? Describe in detail.
2. What regulatory agencies are responsible for regulating this industry?
3. Is there a trend toward more government regulation in this industry?
4. Are there any unique reporting requirements by this industry to government agencies?

Industry Information and Publications

1. What are the leading sources of data on market size, growth rate, and market shares in the industry? Obtain copies of industry publications and learn as much as possible about the company's industry.

FINANCIAL AND ACCOUNTING INFORMATION: GENERAL INFORMATION

Management Reports

1. What financial reports are used by top management to run the business? Obtain sample copies of the most important reports.
2. Are performance reports prepared for all major areas of accountability? Do these reports relate actual performance to plans and budgets? Is adequate information provided to manage effectively and make informed judgments? Obtain sample copies, if possible.
3. Describe the interface of subsidiaries, divisions, and departments with corporate headquarters concerning centralized reporting requirements.
4. Obtain an overview of how the financial and management reporting systems function.

Budgeting Process

1. What are the company's budgeting procedures? How often are budgets assembled? Are they modified on an interim basis? Is a current five-year plan in existence? If so, obtain a copy and study in detail. Obtain copies of five-year plans for the last three years, if possible, and compare against actual results.
2. Is there a formal budgeting/planning process? If so, learn as much about the process as possible.
3. How are budget figures arrived at? What sort of review process is adhered to? What supporting schedules are available?
4. How has historical performance compared with budgeted performance? Has the company consistently over- or under-performed its budgeted/projected results? Are the projected figures realistic? Do forecast numbers factor in an industry cycle (if the company participates in a cyclical industry)?
5. What kind of variance analyses does the company use? Obtain sample reports and analyses.
6. Does the budgeting system monitor the accuracy of forecasts? Are there explanations of major variations (actual versus budget) on a current basis and over the past three years?
7. Are managers held accountable for the actual results of their business unit relative to plan? Is there a compensation system in place which rewards managers for outperforming their budgets and penalizes them for not achieving their stated goals,

without encouraging them to submit “lowball” plans that are intentionally set low such that they will always come in above plan?

8. Is profitability of individual business units and product lines monitored? Are financial ratios, controllable expenses analyses, and contribution to overhead analyses, direct costing and other performance techniques employed? If so, gather as much information as possible and study.

Cash Management

1. What is the amount of cash flow handled by the company each month? Get data for the last year on a monthly basis. Go back farther if possible.
2. How many bank collection accounts does the company have? Obtain a list of all account numbers.
3. How many depository bank accounts does the company have? What is the average amount of cash in each account? Obtain a listing of all accounts and account numbers.
4. What is the average amount of collected cash that is in the “float” and unavailable for company use?
5. What procedures does the company utilize to minimize the transfer time for collected cash balances?
6. Get a copy of the company’s policy statement(s) on cash management.
7. How many cash disbursement accounts does the company have? Obtain a listing of all accounts and account numbers.
8. Who is authorized to make payments of company funds and what amounts are they authorized to disburse?
9. What procedures are utilized to ensure proper adherence to disbursement limits and authorization procedures?
10. Does the company take advantage of discounts when available? What procedures are utilized to avoid loss of discount due to late payments?
11. What is the minimum amount of cash balances which the company needs to maintain for transactions purposes?
12. How much is kept in short-term marketable securities? How are the amounts and maturities of the marketable securities determined?



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Receivables Management – Credit and Collection Policy and Procedures

1. Obtain a copy of the company's procedure manual for managing receivables and the credit and collection functions, if one exists. Ask to meet with the key individual who manages these functions to learn more about his/her abilities and knowledge level.
2. What percentage of the company's sales are on a credit basis?
3. What are normal credit terms? How do they compare to industry norms?
4. What credit information and credit analysis does the company use to determine the eligibility and amount of credit for individual customers?
5. How frequently is customer credit information updated?
6. Does the company have a historical analysis with respect to the dollar amount and number of accounts on which credit losses have been incurred? If so, request the report and review it.
7. What percentage of sales have credit losses amounted to in each previous year? How does this compare with present and projected levels of bad debt expense?
8. Review the current reserve for bad debts. Is this amount sufficient to cover anticipated write-offs?
9. How are delinquent accounts identified and monitored? Does the company have a list of accounts receivable 30, 50, 90 days old? Obtain copies of monthly current and historical accounts receivable aging reports to determine trends.
10. How long are accounts permitted to go unpaid before being considered delinquent?
11. What collection procedures does the company employ? Is the company aggressive in pursuing collections? What are the historical and projected costs of collection?

Inventory Management and Control

1. What procedures are utilized to minimize the amount of funds tied up in inventory?
2. What is the breakdown for each major component such as raw material, work in progress, and finished goods, by each product line? What have recent trends been with respect to the amount of inventory in each of these categories?
3. What is the location of inventory (on hand, in transit, at outside warehouses, etc.)? Is it owned, on "bill and hold," or on consignment? Is it pledged as collateral for outstanding borrowing?

4. Is labor and overhead counted in the dollar amounts for inventory? What are the percentages of material, labor, and overhead in inventory?
5. What inventory valuation method does the company use? Has there been any recent change in inventory accounting practice? What was the effect of this change on reported earnings and net worth? Locate the size of the LIFO reserve.
6. When was the book value of inventory last reconciled with the present market value of inventory? Is any information available on the age of items presently in inventory?
7. What are the dates of the last physical inventories?
8. What parts of inventory have been identified as excess, slow moving, or obsolete? How do these levels compare with historical levels?
9. What have “write downs” been for the past three years and the most recent period?
10. What are the seasonal inventory requirements? How significantly do inventory levels fluctuate throughout the year? Obtain monthly data if the company’s business is seasonal
11. Is a standard or actual cost system used for inventory?

Capital Expenditures

1. What capital budget procedures does the company employ? What are the approval limits at each level of the decision-making process?
2. Obtain a summary of historical capital spending, with detail on individual projects, if possible. Also request projected capital spending data and a list of planned expenditures.
3. Has capital spending in recent years outstripped depreciation, or has the company been under-investing in the business? If recent years are significantly different than historical data, understand why.
4. Ask managers what their “wish list” would be for new equipment/capacity if they had a blank checkbook.
5. Understand the methodology used to evaluate capital projects. What is the minimum acceptable investment return on capital item?
6. To what extent is leasing utilized? How are lease versus purchase decisions evaluated?

Payables Management

1. Obtain a copy of the company's payables procedures manual. Ask to meet with the key individual responsible for this function.
2. Obtain a list of the company's top 10 suppliers and a list of the main raw materials or inputs that it purchases. Have there been any difficulties in obtaining these raw materials historically? Do raw material prices tend to fluctuate significantly or are they relatively stable? If input prices fluctuate, how does the company minimize the risk of high costs? Can the company pass along price increases in raw materials to its customers, or do profit margins tend to shrink during periods of tight raw material supply?
3. What are normal credit terms? How do they compare to industry norms?
4. How many suppliers does the company interface with? What is the company's philosophy with respect to supplier relationships? Is the company only concerned with obtaining the lowest price, or does the company take a long-term, partnership view on its supplier relationships?
5. Does the company have a historical analysis with respect to the dollar amount and number of suppliers for its payables? If so, request the report and review it. A key ratio to look at is days payable outstanding over time. What has the trend been? Ask for information to explain changes if you see any marked shifts.
6. How stable and financially strong are the company's main suppliers? Has the company encountered any difficulties in the past with suppliers not delivering promised shipments on time?
7. Does the company take advantage of supplier discounts by paying early or does the company take as long as possible to pay its suppliers? Understand the company's strategies in this area.
8. Does the company have a list of accounts payable 30, 50, 90 days old? Obtain copies of current and historical accounts payable aging reports to determine trends.

Debt Management

1. Who is the company's lead bank? How many banks does it have relationships with?
2. Who in the company is responsible for banking relationships? Investment banking? Financial public relations?
3. Obtain copies of all loan agreements and indentures.
4. Can all debt be assumed in the case of an asset purchase or liquidation? Locate restrictions on debt assumptions, if any. Review loan documents for change in control language.



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5. What assets, if any, are pledged as collateral against liabilities?
6. Obtain a complete history of all previous financings indicating date, amount, type of instrument, and price.
7. Does the company have an analysis of short-term borrowing patterns for the past five years (minimum and maximum levels, average amount, weighted average interest rate, etc.), and how does it compare to cyclical nature of sales, inventory and production levels? Indicate interest rate and security required, if any.
8. Locate the same information for long-term borrowings. Also locate amortization schedules for each piece of debt in the company's capital structure.
9. Do subsidiary loans, guarantees, or exchange laws exist and, if so, do they restrict divided payments to the parent company?
10. Does the company employ any "off-balance-sheet" financing (e.g., leasing, etc.)? If so, obtain a summary of terms and restrictions.
11. Do any defaults or violations exist in any of the company's corporate obligations including loan agreements, notes, leases, etc.? Describe financial covenants, and attach latest compliance computations and auditor's/officer's certification.
12. What hedging strategies are employed by the company? Obtain a copy of the company's derivatives policy statement as well as information on all derivative contracts in place. Review carefully and understand the business rationale and objectives for the hedging.
13. Review inter-company borrowing arrangements, if any exist. Are appropriate inter-company borrowing rates and terms in place?
14. Understand the company's exposure to foreign currency fluctuations. Does the company attempt to hedge these exposures? If so, review these hedging agreements. Make sure that the company is not engaging in speculation.

FINANCIAL AND ACCOUNTING INFORMATION: ACCOUNTING/INTERNAL CONTROL INFORMATION

Accounting policies

1. Obtain a copy of the company's accounting policy manual. Understand significant accounting policies and procedures.
2. Have there been any significant changes in accounting principles, policies or estimates in the recent past?



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3. Has the company received a “clean” audit from its external auditors or have issues been flagged in recent years? If there were issues, understand them and what has been done to resolve the situation.
4. Are any accounting policies unique to the company’s industry? Does the company employ any accounting policies which differ from industry practice, use alternative methods where other preferable methods exist, or use any excessively conservative or aggressive assumptions?
5. Are the interim financial statements prepared on a basis consistent with that of the annual report? Understand any differences.
6. Are there any proposed accounting pronouncements or government regulations which may have a significant impact on the company?

Internal control

1. Obtain independent accountants’ memorandum on accounting procedures and internal controls for the past three years.
2. Obtain internal audit department reports, as well as auditor letters to management, for the past three years and management responses thereto.

Accounting methods and costing practices

1. What accounting procedures does the company use with respect to the recognition of revenue and expense?
2. Are there any deferred costs or other intangible assets on the company’s balance sheet? Over what period are they amortized? Obtain both amortization amounts and the amount of increases in deferred costs before amortization. Ask for amortization schedules.
3. How are overhead expenses allocated to production departments?
4. What depreciation methods are used for fixed assets? Is the same method used consistently? What is the rationale for any difference in methods? Obtain depreciation tables and policies and procedures which outline depreciation policies for different asset classes.
5. Have there been any recent changes in depreciation methods? What was the effect on reported net income?

Other accounting information

1. Request a copy of the company’s chart of accounts as well as its accounting policy and procedures manual.



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2. Ask to view the company's General Ledger printout for the most recent month ended, as well as the most recent fiscal year ended, along with all reconciliations and work-papers. Look for any large or unusual transactions.
3. Understand the company's closing procedures. Ask to meet with appropriate key individual in the accounting area. Also ask how long it generally takes to close the books each month.

FINANCIAL AND ACCOUNTING INFORMATION: FINANCIAL STATEMENTS

Historical financial statements

1. Obtain copies of recent annual and interim audited financial statements (income statement, balance sheet, and cash flow statement) for the last five years, if they exist. Also request copies of all relevant reports/memoranda prepared by external auditors.
2. Request monthly financial statements (income statement, balance sheet, and cash flow statement) for the past five years.
3. Request audited financial statements for all major business segments, product lines, or geographical locations, if they exist. Also request consolidating spreadsheets and work-papers.
4. If the company is public, request copies of its prospectus, annual report, and other SEC filings (e.g., 10-Ks, 10-Qs).

Assets

1. Cash
 - a.) What are the names and checking account numbers of all disbursement accounts?
 - b.) What has been the average cash balance in each account for the last year?
 - c.) Have all bank accounts been reconciled? Have unusual reconciling items been properly explained?
2. Receivables
 - a.) What is the recognition policy for recording revenues and establishing receivables?
 - b.) Which receivables are discounted or factored, and with whom, cost, terms, purpose, etc.?
 - c.) List all major receivables for amounts over 20 percent of the total. Review the financial condition of these customers to assess the likelihood of recovering the full receivable amount.
 - d.) Are there accounts receivable that represent conditional sales?
3. Notes receivables
 - a.) Is there a list of notes receivable, indicating the terms, such as interest rate, terms, etc.?
 - b.) Why was each material note receivable incurred?
4. Inventories



5. Property, plant, and equipment

- a.) Obtain a comprehensive list, by location, of the company's land and buildings. For each piece of land and building held, list the following: location, description, cost, current value on balance sheet, current market value, and liens.
- b.) Obtain a comprehensive list, by location, of the company's fixed assets. For each piece of equipment list the following: Location, description, age, cost, book value, estimated useful life, estimated market value, depreciation schedule, and liens.
- c.) What significant plant, property, and equipment additions have occurred during the past three years? Are there any projects currently under construction or committed to?
- d.) Is there a list of all significant leasehold improvements? Request to review the following information for each material improvement: Original cost, accumulated amortization, and the amortization period.
- e.) What is the accounting policy for depreciating capital assets? What changes have occurred in the policy during the last five years?

Liabilities

1. Accounts payable

- a.) Which suppliers constitute 5 percent or more of the current total accounts payable, or accounted for 5 percent or more of the average annual balance during the past year?
- b.) What are the regular and unusual credit terms (such as value discounts or extended payment terms) that exist with the suppliers listed?

2. Accrued liabilities

- a.) What, if any, are the accrued liabilities outstanding and how did they arise?

Stockholders' equity

1. Request a list of all classes of stock in terms of types, shares authorized, shares outstanding, voting rights, liquidation preferences, dividends, terms of warrants and options outstanding, major owners, date acquired by major owners, major owner cost basis, market price range, and special terms.

2. Obtain a list of all common stockholders, the number of shares they hold, the price paid, and the date acquired.

3. Obtain a list of all outstanding options or warrants.

4. Obtain a list of all series of preferred stock.

5. Obtain a list of all convertible debt.

6. List equity repurchase agreements such as puts, calls, and rights of first refusal.

7. List restrictions placed on equity securities.

8. List treasury stock. How and when was it acquired? At what price was it acquired? Why was it acquired?
9. Does the company have any stock option or purchase plans? If so, obtain details concerning each.
10. Do any restrictions exist on any of the company's common stock?
11. Do any preemptive rights exist on the company's stock? If so, request details.
12. Do any options or rights of first refusal exist on any of the company's preferred or common stock?
13. Is any stock owned by management and other major stockholders (10 percent or more) pledged?
14. Are there any restrictions against the company repurchasing any of its equity?

Unrecognized Liabilities

1. Request the most current review of un-accrued and unrecorded liabilities.
2. Ask if there are any employee-related deficiency letters issued by governmental agencies.
3. Are there any OSHA, EEOC, or other employee violations? What actions has the company taken to resolve them?
4. Is the company a member of a pension plan? If so, have the funded and unfunded benefits been calculated? If so, request copies.
5. Have any environmental regulation violations or warnings been given to the company? If so, what actions does the company plan to take to resolve them and what are the projected costs of remediation?

Lease Analysis

1. What percentage of the company's equipment and facilities are leased?
2. Obtain copies of all material least agreements and locate the key terms of each agreement.
3. Request a list of all off-balance sheet leases by description, years remaining, minimum annual payment, maximum annual payment, escalations, adjustments, renewals, and options to purchase.

4. Does the company have a list of the capital lease payments due for the next five years? Has such amount been reflected as a liability on the balance sheet? How has the related asset been reflected?
5. How does the present value of capital leases compare to their fair market value?
6. Understand how the company evaluates the lease-versus-buy decision.
7. Obtain copies of material lease agreements as well as a sample of a “typical” leasing agreement.

INSURANCE INFORMATION

1. Does the company have a list of policies in force on its property? If so, describe significant conditions, benefits, and frequency of review.
2. Does the company have a self-insurance plan?
3. What claims have been filed over the past five years?
4. What is the estimated replacement cost of assets held?
5. Is there adequate coverage for contingent liabilities?
6. Are there significant un-accrued costs on incurred but not reported claims?
7. Are increased premiums anticipated as a result of unfavorable trends or the needs for increased coverage?
8. Are significant retroactive premium adjustments anticipated?
9. Does the company have life insurance on its key officers? Does it have disability insurance for the key officers?
10. What other insurance policies are in force (e.g., product liability, medical, etc.)?

TAX INFORMATION

Federal income taxes

1. Request copies of the company’s federal tax returns for the past five years
2. What is the company’s IRS Taxpayer Identification Number?

3. In general, what are the applicable federal, property, excise, and other taxes paid by the company?
4. What examinations have been conducted by federal tax authorities?
5. What are the amount of deficiencies and the nature of adjustments made to previously filed federal tax returns?
6. Have the results of the above reviews been reflected in the current reserve for taxes?
7. What is the status of the current examinations?
8. What are the tax years open and closed to future tax authority examination?
9. What tax loss carry-forwards does the company have? Describe the amounts by year of expiration. Identify the type (i.e., net operating loss, capital loss, ITCs, FTCs, R&D credit, etc.).
10. Request information on any special industry tax considerations such as depletion allowances, special credits or deductions, etc.
11. Ask the company to reconcile the effective income tax rate to the statutory tax rate for the past five years.
12. What are the deferred tax provisions for the past five years?
13. What are the current income tax requirements compared with the current income tax reserve?
14. What are the components of the deferred income tax reserve? What are the future cash requirements?
15. Is the company current on all federal taxes owed (FICA, income, real estate, etc.)?

State and Local Taxes

1. Request copies of the company's state and local tax returns for the past five years.
2. Request state tax apportionment and allocation worksheets.
3. Have there been any state tax audits? If so, understand the nature of the audits as well as the outcome.
4. Have the results of state tax audits been reflected in the current reserve for taxes?
5. Have federal deficiencies been reflected in state and local tax reserves?



6. Does the company have state tax carry-forwards or any other state or local tax incentives? If so, what are the amounts by year of expiration and type?
7. Is the company complying with regulations regarding sales tax and payroll tax collection and remittance?

Transactional tax issues

1. Does the company have an analysis of the tax basis of assets being acquired and an estimate of the fair value of the assets being acquired and liabilities assumed? What is the estimated recapture tax liability, assuming that such is triggered? Consider the following:
 - a.) Depreciation
 - b.) Tax credits
 - c.) LIFO inventory reserves
 - d.) Research and development
 - e.) International, FSC or DISC earnings and profits
 - f.) Previously expensed items (e.g., supplies, tools and dies, etc.)
2. Are there any transfer taxes that would need to be paid in the event of an asset sale? Have such potential costs been estimated?
3. Are there deferred inter-company gains or nondeductible write-offs that may result in additional taxes?
4. What is the expected transaction effect on net operating loss and tax credit carryovers?
5. What are the expected benefits of a taxable vs. nontaxable transaction?
6. Has the present value of step-up benefits been compared to the recapture and related tax liability cost?

Legal information

Organizational structure/general legal information

1. Request a complete legal organization chart that lists all subsidiaries, divisions, and branches. Give name and location and describe operations/purpose. Draw a box chart to show the relationships between all legal entities
2. What is the exact corporate name and address?
3. Where (in what state) and when was the company incorporated?
4. What are the states in which the company is qualified to do business?
5. List any predecessor organization(s) or prior names of the company.
6. What is the fiscal year end for the company?
7. What are the Standard Industrial Classification (SIC) codes for the company?
8. Do any options or rights of first refusal exist on any of the company's common stock?
9. Has the company acquired any operating entities or product lines within the past five years? Any divestitures? If so, obtain detailed information on the transaction(s)

Detailed legal information

1. For each material legal entity, request the following information:
 - a.) Articles/Certificate of Incorporation



- b.) By-laws
 - c.) List of officers and directors
 - d.) Minutes from all meetings
 - e.) List of stockholders
 - f.) Sample stock certificate(s)
2. Request copies of all material business permits and licenses required for the company to operate.
 3. Request copies of all material arrangements, contracts or agreements under the terms of which the company is bound. For example:
 - a.) Long-term supply agreements with vendors to purchase raw materials or other inputs
 - b.) Long-term supply agreements with customers
 - c.) Software licensing agreements
 - d.) Advertising agreements
 - e.) Confidentiality agreements
 - f.) Non-compete agreements

Intellectual property

1. Request a detailed listing of the company's domestic and international intellectual property, including:
 - a.) Patents
 - b.) Trademarks
 - c.) Service Marks
 - d.) Copyrights
2. Request a list of when all registered intellectual property rights expire.
3. Ask if the company has licensed any of its technology from others. What are the amounts of the royalty payments? How are they calculated? Ask to see copies of all related documentation.
4. Has the company entered into any agreement by which it uses another company's licensed intellectual property? If so, ask for a schedule summarizing this information (including a description of how payments are calculated and what average annual payments have been for the past three years) and for copies of any agreements the company has entered into.
5. Ask if the company has been involved in any litigation pertaining to intellectual property. Ask to speak to outside counsel representing the company if the outcome of the litigation could have a material adverse impact on the business.

Litigation

1. Is the company in compliance with all federal, state, and local laws and with all rules and regulations by agencies and commissions thereof, including but not limited to safety and health, consumer products safety, environmental (water, sewer, air, land) that are relevant to the ownership of its properties or operation of its business?
2. Has the company been involved in any significant litigation in the past three years? Is it threatened by pending or unsettled claims? Obtain a list and description of the nature of those claims and the current status. Request to speak with outside counsel representing the company on each piece of material litigation.
3. Are there any legal problems or potential litigation presently facing the industry (e.g.,



asbestos)? If so, what effect might this have on the company?

4. Are there any actions, lawsuits, or proceedings pending or threatened against any of the company's officers or directors? If so, list.
5. Are there any potential antitrust problems with a transaction involving this company? What have the historical relationships between the company and the various governmental regulatory bodies with which it interacts been like?

Manufacturing operations: Production processes

Production facilities and equipment

1. Where is each plant located? Describe the location and construction. Evaluate the condition of each facility. Will significant investments be required in the near term?
2. Are the company's facilities leased or owned?
3. Have there been any recent appraisals of any of the facilities? What was the basis of the appraisal – replacement value, liquidation, etc.? Obtain copies.
4. What is the mix of products produced at each facility? How has the mix changed over time?
5. What is the production capacity of each plant? What is the throughput for each production line? At what capacity level is the plant presently operating? Obtain historical monthly production reports. Are the company's current production levels consistent with those attained historically? If not, understand the reasons for the changes.
6. What are the annual maintenance expenditure requirements at each facility? Are they expected to increase significantly as equipment gets older?
7. What are the present maintenance procedures and replacement policies?
8. Obtain a listing, by facility, of all the major pieces of manufacturing equipment. Request such information as: equipment age and vintage, original cost, carrying cost, depreciation rates, estimated useful life and projected salvage value.
9. What is the estimated useful life of the plants and major pieces of equipment? How do these compare with depreciation rates?
10. Does the company have a formal preventive maintenance (PM) program in effect?
11. Does the company anticipate any major repair or reconditioning work on its equipment in the next twelve months? If so, review items and amounts. Have these been included in the company's capital expenditure budget for this year?
12. Ask key managers in the production areas if they had a "blank checkbook" what pieces of equipment they would replace. What new equipment items would they add to improve efficiency?
13. What equipment bottlenecks exist that limit the plant from increasing production?
14. Does a formal procedure exist for approving capital expenditures? If so, review. What is the company's hurdle rate for new equipment?

Manufacturing processes

1. Obtain a plant layout diagram that shows the production flow for each manufacturing process.
2. Is production a continuous process or a batch process?
3. What is the length of each production cycle? What are the setup times and costs for each one?



4. What are the key stages of the manufacturing process(es)? What is the unit throughput rate for each one? How many employees are required at each production stage?
5. Which segment(s) represent the bottleneck(s) at present? What would be required to increase the throughput of the bottleneck? What is currently being done? Has this area been the bottleneck historically?
6. Is the production flow generally efficient? How could it be improved?
7. Are any computers or other electronic processing equipment used in the production process? Is any of the production equipment highly specialized or custom-made?
8. How much flexibility is there to shift production within each plant? Between plants?
9. How is the weekly/monthly production schedule established?
10. Is a copy of the monthly unit production summary for each of the past twelve months available? Obtain a copy.
11. How many shifts/day is the company now operating?
12. Is the manufacturing process labor-intensive? To what extent is the production process now automated?
13. To what extent could additional parts of the manufacturing process be automated? What would the capital requirements be? What would be the effect on overall product costs? On labor utilization? On labor content of product cost? On production flexibility?
14. Are there any current plans to replace or add equipment or manufacturing capacity?
15. How many component parts and raw materials are used in the production process? What are the annual requirements for each one?
16. Nature of operations:
 - a.) What are the major operations and their sequence (e.g., component fabrication and machining, component assembly, final assembly and testing)?
 - b.) What is the relationship of the cost of each operation to total product cost? How can costs be squeezed out of the system? Where do the opportunities lie?
17. What programs exist for ensuring quality control?
18. Productivity:
 - a.) What are the current trends in manufacturing productivity? Obtain sample reports, if possible.
 - b.) In what areas could productivity be improved?
 - c.) How does the company's productivity compare with the productivity of its competitors?

Quality control and inspection

1. What procedures does the company have in place for testing incoming raw materials and component parts?
2. What are the quality standards for each key component and material?
3. What has been the company's experience with each supplier of key components or materials?
4. How are the company's quality control standards established?
5. Describe in detail the company's quality control programs, and obtain a copy of the policies and procedures manual.

Engineering

1. What is the size, organization, and salary structure of the engineering department?
2. What specific projects is the engineering group now working on?
3. How are engineering projects organized and monitored? How are efficiency and productivity measured?

Inventory

1. Is the current level of inventory at optimum levels? If not, describe. Who establishes the optimum inventory level?
2. Are any items in inventory obsolete, outdated, out of style, subject to markdown, etc.? If so, describe.
3. What are the inventory control procedures? Are inventory requisitions used? Is there a separate, enclosed area for inventory?
4. How often are physical inventories taken?

Production costs

1. Does the company have a methodology for determining direct labor costs? Indirect labor costs?
2. How are costs allocated to each production process? Ask for information on allocation methodologies and formulas. Also ask to meet with the accounting manager(s) responsible for determining allocations.
3. How does the company monitor and control various costs of production?
4. What are the present and historical product costs? Obtain a complete list of labor and material costs, indirect costs, amount of overhead allocation, and other components of product cost, if any.

Manufacturing operations: Purchasing, shipping and receiving

Purchasing

1. Do any long-term contracts exist between the company and any suppliers? If so, obtain copies of the supply agreements and summarize the most important terms of each such agreement.
2. Is there a procedures manual for the purchasing function? If so, review.
3. List the basic raw materials used in the manufacturing process.
4. What are the lead times for critical components? Are they handled differently from routine inventory items?
5. List and describe any long-term supply contracts and/or reciprocal buying agreements.
6. Summarize intra-/inter-company purchases.

Shipping and receiving

1. Are there procedures manuals for the shipping and receiving functions? If so, obtain copies and review.
2. Describe the methods of receiving and shipping (e.g., rail, barge, common carrier, UPS, company trucks, etc.) that are used by the company.
3. Request information on the costs of shipping finished products. How much does each form

of transportation cost? How is one form of transportation chosen over the others? Who bears the cost of shipping?

4. Has the company ever encountered any difficulties in distributing its products?

Manufacturing operations: Research and development

1. How are projects chosen for research and development? How is productivity measured in the R&D function?
2. How large is the R&D budget? Ask for information, on a project-by-project basis, going back several years. Compare historical R&D expenditure levels to current and project levels. If significant differences exist, understand why R&D spending has changed.
3. What specific projects is the R&D department currently working on? What are the timetables for their completion? What are the anticipated benefits of each project?
4. Describe the company's procedure for capitalizing and expensing R&D activities.
5. Does the company own any patents or have any patents pending? If so, describe.
6. Describe the major R&D programs completed during the past five years.
7. Describe the major R&D programs currently underway and ask for a summary of the costs incurred to date on each project. Estimate the time and cost required to complete each project, as well as the potential benefits of each program.
8. Ask for information on proposed R&D projects that are currently under review and/or consideration for funding.
9. Compare industry-norm R&D expenditure levels to those of the company. Do opportunities exist to pare back the R&D effort in order to reduce costs?

Sales and marketing information: Sales force composition and compensation

1. How large is the company's sales force? Obtain a list of all salespeople, including years with the company and sales volume by salesperson for the last three years.
2. How many sales offices does the company maintain? Obtain a list of the sales offices. Are these offices leased or owned? Where are they located? How large a geographical area is served by each one? How many and what kinds of people are employed at each one? What volume of sales is required to support the expenses of each sales office?
3. Who is the head of sales and marketing? What is his or her background? How long has he or she been with the company?
4. Who are the top ten salespeople for the company? What have their annual production levels been for the past several years? How long have they been with the company?
5. How long does it take a salesperson to "get up the curve" and become a meaningful producer?
6. What salary and commissions did salespeople receive during the last fiscal year? What have sales volumes done over the same period?
7. Understand the compensation formula for salespeople. What percentage of total compensation is base salary? How does the incentive compensation program work? Are sales quotas used? Are salespeople rewarded for repeat sales and customer satisfaction? Penalized for poor quality and/or dissatisfied customers? What mechanisms are in place to prevent a salesperson from "low balling" his or her annual sales forecast in order to consistently come out ahead of budget?
8. What is the relationship between product profitability and incentives for salespeople?

9. How are the company's salespeople compensated relative to their peers at other companies which participate in the same industry? Is the premium (or discount) justified?
10. What other benefits or forms of compensation besides base salary and commissions/annual bonus are provided to salespeople? What other perquisites are part of the total compensation package (e.g., company car, golf club memberships, etc.)?

Products sold

1. Describe all the key products/services provided by the company. Do the company's products/services have a sustainable competitive advantage over competing products in the marketplace?
2. What services are sold in connection with products (e.g., warranty, extended service terms, etc.)? Is ongoing service integral to initial product sales?
3. Are there substitutes for this product?
4. What factors drive demand for this product? What is the influence of overall economic conditions on demand for the company's products? Is demand for the company's products cyclical, counter-cyclical or immune to the vagaries of prevailing economic conditions?
5. How many of the company's sales have been made as a result of follow-on orders?
6. What is the size and quality of present backlog? How is backlog split between orders from existing customers and orders from new customers?

Product pricing

1. How are product pricing levels set? How often are price changes reviewed?
2. What have been the historical price trends for each of the company's products? Is the company a price taker or a price leader in the industry?
3. What are expected future price trends?
4. Which products are the most profitable for the company?
5. How do the company's pricing policies and structure compare with those of the competition?

Product warranty

1. Describe the company's present warranty policies.
2. What was the company's warranty expense for each of the past three years? Has the trend been fairly stable? If not, understand what has accounted for the changes.
3. Have there been any product recalls in the past five years? If so, how much did the recall program cost the company? What were the reasons for the recall?
4. What is the amount of the company's present warranty reserve? Is it adequate?

Advertising

1. What are the company's annual advertising expenditure levels? Request advertising expenditure levels for the past five years. Are current advertising levels comparable to those of several years ago? If not, understand why a difference exists. Are projected advertising expenditures comparable to current expenditure levels?
2. Does the company own a strong brand name? If so, how was brand name recognition developed and what is being done to protect the brand's position?
3. What media are used by the company to reach its target audiences? Understand who the target audience is for each of the company's products.

4. What is the rationale for the overall mix of promotional activity?
5. How are the results of advertising and other promotional expenditures evaluated?
6. Obtain the name and address of the advertising firm that the company employs.
7. Does the company have a written advertising program and/or budget for this year? If so, obtain a copy and review.

Product brochure/literature

1. Request sales literature and brochures which describe the company's products
2. Request samples of each of the company's products.

Customer Information

1. Who are the company's customers? List the ten largest customers and describe the nature of each customer's relationship with the company. How long has each been a customer? Obtain a complete customer list, if possible.
2. What percentage of the company's sales does the largest customer represent? If the largest customer represents a significant percentage of the company's total sales, request more specific information about these customers and the nature of the company's relationship with each customer.
3. Does the company have any long-term contracts or special arrangements with the major customers, including consignments? If so, describe.
4. Has the company lost any major customers in the past two years, or is the company about to lose any? If so, describe.
5. How much power over the company do its customers exert?

Customer service

1. How many customer services centers are there? What is their relationship with the sales and marketing offices? How is the responsibility for customer relationships divided between these two groups?
2. How important is service capability to the customer?
3. Is this a profitable operation for the company?
4. How many employees work in the customer service function?
5. Is there a customer service procedures manual? If so, request a copy.

Sales forecasting

1. In what ways is the sales and marketing department involved in the annual budgeting and forecasting process?
2. What methodology does the sales and marketing department use to develop its forecast? Is it a "bottoms up" analysis or is it "top down"? Understand the methodology and ask to review a copy of the sales and marketing department's budget, if one has been created.
3. What backlog does the company have by product or product line? What has it been in the past? Is the backlog increasing or decreasing?

Distribution Channels

1. How many distribution channels are used by the company? Understand all the manners in which final products get to the customer.
2. If distributors are used, what typical credit terms are extended to the distributor?
3. Has the company entered into any long-term distribution agreements? If so, request copies and the key terms of each such agreement.

Environmental Information

Environmental information

1. How much and what kinds of scrap or waste are generated by the company's production processes? How are the wastes disposed of?
2. Obtain copies of all production permits, permits to pollute or discharge wastes, etc. required to operate the company's business.
3. Request the most recent environmental reports for each of the company's manufacturing facilities/sites. If none exist, you might want to consider hiring an independent environmental firm to perform Phase I environmental audits of all facilities.
4. Ask to meet with the manager of environmental compliance. Also request to review the files containing all correspondence with environmental agencies and regulatory bodies.
5. What pollution control standards is each plant subject to? How are they expected to change over the next five years?
6. What federal and local environmental enforcement agencies monitor the activities of the company?
7. What is the company's current status with respect to compliance with all existing federal, state and local environmental regulations? Verify company status with appropriate agency officials.
8. If the company is not in compliance with certain environmental regulations, what is being done to remedy the situation? What is the projected cost of remediation to get the company in compliance? Request to view the capital expenditure plan for the project(s).
9. What Occupational Safety and Health Administration (OSHA) requirements is each plant subject to? What has the company's record been with respect to past OSHA inspections? What fines have been paid by the company as a result of OSHA inspections? Have violations been corrected?

Computer systems information

Hardware/LAN/WAN information

1. Catalog the company's systems infrastructure by type of machine, ownership, date installed, location and its application. What is the estimated remaining useful life for the equipment? Does this match up with the depreciable lives estimated for the equipment? Is the current configuration adequate for the company's needs?
2. Request copies of the company's IS reports. Is the company operating at or near its IS capacity? If so, ask the company whether or not it believes it will have to expand in the near future. What sort of hardware would be purchased? What would the estimated cost be?

3. Ask to meet with the company's director of information systems. Try to understand the company's systems philosophy. Does the company want to be on the "cutting edge" of technology or is it more a "technology laggard" which intentionally lags others and installs only time-proven technology?
4. Request a copy of the company's IS budget, if one exists. Does the company need significant investment in order to get its systems up to par with the industry? Are the current systems adequate from a technological, as well as a capacity, standpoint?
5. Request historical and projected spending on information systems (IS). Have significant expenditures been made in the past or are significant IS expenditures planned for the future? If so, understand the nature of the investments and ascertain whether they are "nice to have" or "need to have" investments.
6. Request copies of the company's Local Area Network (LAN) system configuration diagrams as well as the company's Wide Area Network (WAN) system configuration diagrams.
7. Request copies of any hardware or network maintenance agreements that the company has entered into with the vendor of the hardware, if any exist. Summarize the key term of these agreements.
8. If the company has a separate Data Center, ask to visit the facility and meet with the systems manager in charge. Ask about system backup plans and emergency procedures.
9. Ask to review the company's disaster recovery plan, if one exists.
10. Request information on the company's policies and procedures with respect to depreciation of hardware and software. Are new systems development projects capitalized? If so, over what time period are the costs of the projects amortized? What criteria do the company use to determine whether a system's items should be expensed or capitalized?

Software information

1. Obtain a listing of all software used by the various functional areas of the company.
2. Request copies of all software licensing agreements. Summarize the key terms of all agreements.
3. Is most of the company's software customized or "off-the-shelf"? Does the company have its own internal software development group or is any customization work or systems development work done by outside consultants? If the company uses consultants, what firms does it work with?
4. Has the company entered into any long-term software development agreements? If so, request copies and summarize the key terms of the agreements.

Human resources information

General information

1. Obtain a detailed organizational chart for the entire company. Request detailed job descriptions for all job levels within the company. Ask to review resumes for the company's top managers and other key employees.
2. What is the total number of employees? How many employees are there at each level? How many management level employees are there? How many unionized and how many nonunionized?
Hourly and salaried?



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3. What is the average age of the company's employees by salary grade? What is the average tenure with the company by salary grade?
4. How are hiring and firing decisions made?
5. How is productivity measured? Are any incentive plans in effect?
6. What has the turnover rate been for each level of employee?
7. What personnel backup, or redundancy plans, does the company have in place for key positions within the company?
8. Does the company have a policies and procedures manual? If so, request a copy. Also request a copy of the company's Employee Handbook and a copy of the company's Employee Benefits Manual.
9. Does the company use any outside consultants? If so, describe the nature of their services. Request copies of any reports and consulting agreements, if they exist. Summarize the key terms of these agreements. In general, how does the company decide whether to use internal resources or contract work out?

Unionized employees

1. How many employees are unionized?
2. What is/are the union(s) representing the company's employees?
3. When does/do the present union contract(s) expire? Ask for copies of all collective bargaining agreements with the union(s). Also ask to meet with the company's labor relations department.
4. Ask if any side letters have been signed with the union(s) in addition to the collective bargaining agreement(s). If so, request copies of all such agreements. Have any informal agreements been struck between the company and the union(s)? If so, ask for details.
5. Have there been any strikes in the past? Obtain a summary of labor relations over the past 10 years.
6. What is the general status of union relationships?
7. If the company has not been unionized, ask if there have been any attempts to unionize the company's employees. How successful was the campaign? What were the issues that were raised? Who attempted the organizing campaign? Are additional efforts expected in the future? What is the company doing presently to avoid unionization?
8. How are grievances handled? Ask to see a listing of all outstanding grievances. Also request a summary of the total number of grievances filed during each year for the past five years. Is the trend positive or negative? Ask for an explanation if there has been a material change, either for the better or for the worse.
9. Request a summary of lost time accidents (LTAs) by facility for the past five years. Is the trend positive or negative? Ask for an explanation if there has been a material change, either for the better or for the worse.
10. Do safety committees exist? If so, obtain details. Also ask for safety records and descriptions of any safety programs the company has implemented with hourly workers.

Compensation

1. What is the average wage or salary rate at each level? What other benefits or forms of compensation are provided?

2. Are the wage rates for the company high, low, or average in relation to the industry?
3. Request a list of the company's highly compensated employees and their respective salaries. Are these levels high or low relative to the industry? Is the premium/discount justified?
4. Is the compensation plan being administered so as to attract and retain top-quality personnel?
5. What perquisites are offered to employees?
6. Obtain a copy of the weekly and monthly payroll record or printout for salaried and hourly, full-time and part-time employees. Identify the codes, departments, supervisors, and officers.
7. What payroll records exist for each employee?

Pension plan

1. Does the company have a pension plan? If so, obtain the summary plan description as well as a copy of the most recent ERISA Compliance Information Form 5500.
2. Is the pension plan fully funded? Through what date? Who is the internal or external actuary? Request a copy of the most recent actuarial evaluation of the pension plan's status.
3. Do any Employee Retirement Income Security Act (ERISA) violations exist? If so, describe.
4. List the company's pension contributions for each of the past five years.
5. Is the plan over-funded so that termination of the plan will trigger a return of the surplus to the company? If so, can this benefit be captured in the event of a transaction?

Profit sharing plan

1. Does the company have a profit-sharing plan? If so, obtain a summary.
2. Have all disbursements been made to the plan for the past year? If not, describe.
3. Can the plan be terminated at any time at the discretion of the company?
4. List the contributions for each of the past years.

Bonus plan

1. Does the company have a bonus plan for any of its employees? If so, describe.
2. Obtain a list of bonuses paid last year.

Other employee benefits

1. Request a summary of the company's benefits plans. Oftentimes, summary plan descriptions can be located in the Employee Handbook, if one exists for the company.
2. Request information on the company's medical and sick leave benefits and policies. Also determine the number, type, and cost of claims over the past three years, and specifically identify any significant open claims.
3. Request summary information on the company's vacation/holiday policies.
4. Request information on the company's stock option or related equity incentive programs. Who is eligible for participation?
5. Ask for information on the company's policies related to travel and entertainment expenses.

Employee agreements

1. Do any employment contracts, noncompete contracts, termination agreements, or other



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special employee agreements exist? If so, obtain copies of these agreements and summarize the key terms of each agreement. Review each agreement carefully for change in control provisions.

2. Do indemnification agreements exist for the company's top executives? If so, ask to review copies of such agreements.

Training and development

1. Does the company have a formal training program for its employees? If so, locate information on the company's training department.
2. If no formal program exists, ask for information on what procedures are followed for training new and transferred employees.

Hiring procedures

1. Review in detail procedures for soliciting, interviewing, screening, evaluating, conducting reference and credit checks, and hiring new management personnel, and other new employees.
2. Has the company experienced any problems with the Equal Employment Opportunity Commission? If so, obtain detailed information and make sure to understand the situation. What actions were taken to resolve the issues?

Employee litigation

1. Has any employee litigation action occurred in the past three years, or is any threatened or pending now? If so, describe.

ABOUT COHEN STRATEGY GROUP, LLC

Based in New York and serving clients worldwide through affiliate offices, Cohen Strategy Group provides strategic planning and marketing services that help our clients build successful businesses. Our firm is a proven industry leader in outsourced business development, marketing strategy creation, sales pipeline implementation and public & political issue advocacy.

Cohen Strategy Group isn't in the game of building better websites; we are focused on building better businesses...because the valuations of Fortune 1,000 companies, *and all companies for that matter*, are driven by their business strategy not the sophistication of their website.

Cohen Strategy Group is a relationship accelerator, which speeds a company's time to market. We know that actively building value and realizing opportunities are the primary keys to business success.

To learn more, please visit www.cohenstrategygroup.com.