

MASTER ACQUISITION DUE DILIGENCE CHECKLIST

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INTRODUCTION

Due to the volume of information needed and facts to investigate during the due diligence process, this checklist provides a general master list for the due diligence leader and team members. A comprehensive checklist yielding absolute certainty might be unobtainable. The business judgment required to interpret due diligence information inevitably uncovers areas of uncertainty. However, fundamental due diligence investigation practices should mitigate risk and at least identify critical assumptions, key risks, and areas of uncertainty to assess them as manageable or deem them unmanageable.

This checklist comprises nine (9) fundamental areas of due diligence for most businesses. If comfortable, feel free to check only those areas which are relevant to the acquisition in question. Once complete, the investigation team must apply experienced business judgment against due diligence information to assist the acquirer with business decision making. If this master list can be refined, improved or clarified for purposes of best practices, let us know by sending feedback to www.pioneerbusinessventures.com. Good luck with your due diligence and business venture!

I CORPORATE OVERVIEW

A. Corporate Organization:

- Review Incorporation Documents of the Company.
- Obtain Certificate of Status/Good standing for the Company.
- Review by-laws of the Company.
- Conduct a corporate review of the minute books of the Company.
- Focus on validity of major corporate actions.
- Obtain a list of countries and states where the Company is or should be qualified to do business
- Review partnership or joint venture agreements, if any.
- Perform asset searches in jurisdictions where principal assets are located.

B. Corporate Development Overview:

- What are the company's core competencies?
- Does the company maintain any strategic alliances?
- When and where was the company founded, and by whom?
- What is its history of product development?
- What is the history of the management team?
- Has the corporate location changed?
- Have there been ownership changes?
- Have there been acquisitions or divestitures?
- What is its financial history?
- Obtain and review copies of all
 - o acquisition agreements;
 - o filings with government agencies made in connection with the acquisition;

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- Other closing documents for the acquisition.

C. Public Document Review:

- Review all publicly filed documents of the Company.
- Perform Internet searches in respect of the Company.
- Review all press releases and media articles relating to the Company and the industry.
- Review all management speeches.

D. Synergies:

- Itemize the synergies that will be created by the acquisition. Split the synergies list into those that are based on identifiable cost reductions, and those based on possible revenue increases.
- How well do the products, personnel, and geographic coverage of the acquirer and acquired fit together?

II MARKETING & SALES

A. Industry & Market Overview:

- How is the market segmented?
- What are the factors affecting growth and profitability?
- What are the trends in the number of competitors and their size, product innovation, distribution, finances, regulation, and product liability?
- Estimate the size of the industry, present and projected, in each significant product line, and compare Business growth projections with anticipated market size for consistency.
- Review government and trade reports and trade literature regarding the market segments of the Business.
- Analyze competitors' SEC and other filings for unanticipated trends or developments.
- Review any internal or outside studies of the Business, the market and the products.
- Interview trade association personnel concerning trends of relevance.
- Assess the effect of macroeconomic trend (e.g., interest rate fluctuations, inflation rates, economic growth rates).
- Assess the comparative strengths and a weakness of competitors in terms of the dominant competitive factors in the industry (e.g., price, service, performance, etc.)
- Determine whether research and development (R&D) expenditures are consistent with industry practice.

B. Brands:

- Review any branding strategy documents. Does the company have a long-term plan for brand support?
- Review budgeted and actual expenditures for customer support, marketing, and quality assurance related to branding.
- What types of advertising and promotion are used?

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- Ensure that the company has clear title to any branded names.
- How well is the brand supported on the company Web site?
- Note the amount and trend of any legal fees needed to stop brand encroachment.

C. Customers:

- How concentrated are sales among the top customers?
- What is the distribution of sales among the various products and services?
- What is the current sales backlog by customer?
- What is the seasonality of sales? Are sales unusually subject to changes in the business cycle?
- What is the financial condition of key customers? Does it appear that their businesses are sufficiently robust to continue supporting purchases from the company?
- How long has the company had sales relationships with its key customers?
- Which new customers is the company actively pursuing, and how much potential revenue and profit do they represent?
- How profitable is each of the key customer accounts? Do any customers require a disproportionate amount of servicing, or require special terms and conditions?
- Itemize any customer contracts that are coming up for renewal and likely changes to the key terms of those agreements.
- Is there a history of complaints from any customers? How profitable are the customers who appear to be the most dissatisfied?
- Obtain a list of all customers who have stopped doing business with the company in the last three years.

D. Marketing and Distribution:

- Evaluate the importance of original equipment manufacturers (OEMs), present and future.
- Analyze each significant contract regarding contingencies, extent of warranties and other service obligations, rights of cancellation, etc.
- Check material contracts with customers for completeness, to determine existence of side written or oral commitments, or other terms that materially vary Business contracts.
- Evaluate the extent to which the Company finances any customer purchases from the Business and obtain a copy of documentation.
- Review model sales contract, sales representative agreements and dealer agreements used by the Business.
- Evaluate the adequacy of the distribution network, the degree of control over distribution, etc.
- Evaluate the effectiveness of marketing personnel.
- For new products, estimate the cost of introduction, and determine whether the cost is adequately reflected in cash flow projections.
- Assess the likelihood of discontinuation of products or services.

E. Sales Activity:

- Determine the amount of ongoing maintenance revenue from standard products.

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- Obtain copies of all outstanding proposals, bids, and offers pending award.
- Obtain copies of all existing contracts for products or services, including warranty and guarantee work.
- What is the sales strategy (e.g., add customers, increase support, increase penetration into existing customer base, pricing, etc.).
- How does the company promote its products and services (advertising, trade shows, etc.)?
- What is the structure of the sales organization? Are there independent sales representatives?
- Obtain the sales organization chart.
- How many sales personnel are in each sales position?
- What is the sales force's geographic coverage?
- What is the sales force's compensation, split by base pay and commission?
- What were the sales per salesperson for the past year?
- What was the sales expense per salesperson for the past year?
- What is the sales projection by product for the next 12 months?
- Into what category do customers fall – end users, retailers, OEMs, wholesalers, and/or distributors?
- How many customers are there for each product, industry, and geographic region?
- What is the average order size?
- Does the company have an Internet store? Does the site accept on-line payments and orders? What percentage of total sales come through this medium?
- What is the structure of the technical support group? How many people are in it, and what is their compensation?
- Does the company use e-mail for marketing notifications to customers?
- What are the proportions of sales by distribution channel?
- How many customers can the company potentially market its products to? What would be the volume by customer?
- What is the company's market share? What is the trend?
- Are there new markets in which the products can be sold?

F. Product Development:

- Which products are nearing the end of their useful lives, and how much revenue is attached to them?
- Obtain a list of development projects in the product pipeline. What is the estimated remaining time and expense required to launch each one?
- What attributes make the company's new products unique?
- Have any products been in the development pipeline for a long time, and have no immediate prospects for product launch?
- Who are the key development personnel? What is their tenure and educational background?
- Does the company primarily use incremental product improvements, or engage in major new product development projects?

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- How much money is invested annually in development? As a proportion of sales? How does this spending compare to that of competitors?
- Does the company have a history of issuing inadequately engineered products that fail? Is this finding supported by warranty claim records?
- Is there a product development plan? Does it tend to target low-cost products, ones with special features, or some other strategy? How closely does the development team adhere to it?
- Does the company use target costing to achieve predetermined profitability targets?
- Does it design products that avoid constrained resources?
- Assess the threat of obsolescence for each significant product line.
- Review new product and service plans and development progress.
- Compare the products with those of competitors, and assess the threat from new competitors.
- Perform an analysis of unproven technology, using experts if necessary.

III HUMAN RESOURCES

A. Culture:

- What type of command structure is used? Does it vary by department?
- Is there a set of standard policies and procedures that govern most processes? How closely do employees adhere to it?
- What practices does the company use to retain employees?
- What types of social functions do employees engage in as a group?
- Does the company generally promote from within, or from the outside?
- What types of training does the company require of its employees?
- What types of indoctrination programs are used for new employees?
- What types of awards and ceremonies are used to recognize employee achievements?
- What level of customer service is the company accustomed to provide? Does it support "above and beyond" levels of support, and publicize these efforts?
- What dress code does it allow? Does this vary by location?
- What type of feedback mechanisms are used to discuss issues about employee performance?
- How does the company disseminate information to its employees? Is it a more formal method, such as a monthly newsletter, or more informal employee meetings?
- What is the physical environment? Does the company emphasize low costs with cheap furnishings, or more expensive surroundings?
- Is there a sense of urgency in completing tasks, or is the environment more relaxed?

B. Management & Employees:

- Obtain a list of all employees, their current compensation, compensation for the prior year, date of hire, date of birth, race, sex, and job titles.

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- Obtain a list of all inactive employees, stating the reason for their inactive status and the prognosis for their return.
- Obtain copies of the I-9 forms for all active employees.
- Obtain copies of any employment agreements.
- Obtain copies of performance evaluation criteria and bonus plans.
- Obtain copies of any non-compete, intellectual property, and/or confidentiality agreements. Also obtain copies of non-compete agreements that currently apply to terminated employees.
- Obtain copies of any salesperson compensation agreements.
- Obtain copies of any director compensation agreements.
- Summarize any loan amounts and terms to officers, directors, or employees.
- Obtain any union labor agreements.
- Determine the number of states to which payroll taxes must be paid.
- Obtain a copy of the employee manual.
- Conduct background investigations on principal employees.
- Summarize the names, ages, titles, education, experience, and professional biographies of the senior management team.
- Obtain copies of employee resumes.
- What has been the employee turnover rate for the past two years?
- Obtain a list of all involuntary terminations within the past year, stating the reason for termination and the age, sex, race, and disability status of each person terminated.
- Obtain a copy of the organization chart.
- Investigate the prior experience of management and directors in the same industry and the same size company, their experience with large firms etc. Also investigate their reputation in the industry.
- Review prior transactions between the Business and insiders for fairness, propriety, full disclosure, etc.
- Determine whether any significant defections from management are imminent and assess their effect on competitiveness.
- Obtain copies of all personnel policies.
- Obtain copies of all employee handbooks.
- Obtain a complete employee list of the entire Business, setting out names, job titles, addresses, age (where available), salary and length of service.
- Analyze written employment contracts with regard to:
 - name of employee;
 - description of position;
 - term of agreement;
 - salary;
 - special benefits;
 - severance obligations of the employer;
- Obtain copies of any agreements which employees are required to sign:
 - confidentiality agreements;
 - invention assignment agreements;
 - conflict of interest declarations;
 - non-competition agreements;
 - non-solicitation agreements;

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- agreement with governments or government agencies, including military procurement contracts;
 - agreements with competitors;
 - and any other agreements with employees, such as loan agreements, consulting agreements.
- Obtain a description of all pending labor disputes or disputes within past five years.
- Obtain copies of all current labor contracts, including any collective bargaining agreements.
- Obtain copies of any pending applications for union certification, labor board proceedings, outstanding grievances or arbitration awards.
- Obtain copies of any outstanding complaints under the Human Rights legislation.
- Obtain sample employment applications.
- Obtain copies of forms used for evaluation of applicants including written instructions to all persons who interview applicants.
- Obtain copies of pre-employment tests.
- Obtain copies of any complaints, proceedings or orders under applicable affirmative action or pay equity legislation.
- Obtain copies of most recent affirmative action plan.
- Obtain copies of material safety sheets.
- Obtain sample copies of educational material distributed to employees in compliance with Health and Safety Act legislation.
- Obtain copies of Health and Safety reports filed with government authorities in the last 12 months.
- Obtain a summary of all workers' compensation claims in last 12 months.
- Obtain summary of current:
 - vacation plan
 - paid holiday
 - bonus plans
 - commission payment plan
 - overtime pay
 - shift differentials
 - sick pay
 - personal days
 - paid funeral or bereavement leave
 - work clothing benefits
 - housing arrangement
 - other
- Consider whether the transaction is likely to result in the loss of key employees to retirement.
- Assess the adequacy of the labor supply for each operation division.

C. Benefits:

- Review accrued 401k benefits. What is the company contribution percentage? What is the level of employee participation?
- Obtain copies of all pension plan documents, amendments, and letters of determination.
- Obtain copies of the pension assets, liabilities, expenses, and audits for the past three years.

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- Determine the funding status of the company pension plan, and the ten year projected cash expense associated with it.
- Itemize all fringe benefits, along with current and projected employee eligibility for and participation in each one.
- Obtain a list of all former employees using COBRA coverage, and the dates on which their access to COBRA coverage expires.
- Itemize all executive perquisites above the standard benefits package, and the extent of these expenses for the past two years.
- Review management, employment, incentive, deferred compensation, and bonus agreements.
- Review employee health and welfare plans, whether insured or uninsured.
- Review each tax-qualified retirement plan and any related trust or insurance contracts including but not limited to any fully funded non-contributory employee pension plan, any key management incentive plan and any investment savings and profit sharing plan (as amended to date).
- Review the two most recent actuarial valuation reports.
- Review the most recent Summary Plan Description for each employee-benefit plan.
- Review the three most recent Annual Financial Reports and summary annual reports (including all supporting schedules and audit reports) for each employee-benefit plan.
- Review documents relating to union employees' participation in any multi-employer pension plan.

IV OPERATIONS MANAGEMENT

A. Capacity:

- Determine the facility overhead cost required for minimum, standard, and maximum capacity.
- Ascertain the amount of capital replacements needed in the near future.
- Determine the periodic maintenance cost of existing equipment.
- Determine the maximum sustainable production capacity by production line.
- Estimate the cost of modifications needed to increase the capacity of each production line or facility.

B. Production Process:

- Does the company have a push or pull manufacturing system?
- Does the company practice constraint management techniques?
- Does the company use work cells or continuous assembly lines?
- Is there an adequate industrial engineering staff? Does it have an ongoing plan for process improvement?
- What is the production area safety record? What types of problems have caused safety failures in the past?
- What issues have caused shipping delays in the past?
- What is the history of product rework, and why have rework problems arisen?

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- Assess ability of production facilities to handle anticipated volumes, and whether the cost of new plant and equipment is consistent with anticipated cash flow.
- Evaluate product and process obsolescence, and compare production facilities to those of industry competitors to determine future competitiveness, both technical and economic.
- Inquire into anticipated plant closings as well as plans for new facilities.
- Evaluate adequacy of management information systems and inventory control programs.
- Assess exposure from single source suppliers, and evaluate the contingency plans of the Business for responding to interruption of supplies.
- Contact major suppliers to determine their satisfaction with the Business, and their plans to retire, reduce, or raise the price of, key supplies and components.
- Review material contracts with suppliers.
- Review agreements, subcontractors and manufacture of the Company's products; any "private label" supply or purchase contracts.

V FINANCIAL MANAGEMENT

A. Assets:

- Verify bank reconciliations for all bank accounts harboring significant cash balances.
- Obtain current detail of accounts receivable.
- Determine the days of receivables outstanding and the probable amount of bad debt. Review the allowance for doubtful accounts calculation.
- Obtain a list of all accounts and notes receivable from employees.
- Obtain a list of all inventory items, and discuss the obsolescence reserve. Determine the valuation method used.
- Obtain the current fixed asset listing, as well as depreciation calculations. Audit the largest items to verify their existence.
- Appraise the value of the most expensive fixed assets.
- Obtain an itemized list of all assets that are not receivables or fixed assets.
- Ascertain the existence of any liens against company assets.
- Obtain any maintenance agreements on company equipment.
- Is there an upcoming need to replace assets?
- Discuss whether there are any plans to close, relocate, or expand any facilities.
- Itemize all capitalized research and development or software development expenses.
- Determine the value of any net operating loss carry forward assets.

B. Property, Plant and Equipment

- Obtain list of all real properties, leased or owned, with description of use.
- Obtain and review title opinions on owned property including reviewing reporting letters and opinions from solicitors and others with respect to acquisition of such property.

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- Obtain and review surveys on owned property. Review term, termination rights, rent, whether net lease, defaults, assignability, etc.
- Obtain and review copies of all leases for leased property.
- Obtain a list of physical assets tied to financial statements.
- Consider a physical examination of principal plants and properties.
- Obtain particulars regarding commitment by the Company for fixed asset additions and particulars regarding proposed capital expenditure programs.
- Consider reviewing any major encumbrances on or over real property and leases referred to above.
- Obtain a list of machinery and equipment and other personal property.
- Obtain a list of personal property.
- Encumbrances on or over personal property.

C. Intangibles Assets

- Obtain a list of all product names from the Company.
- Ensure all product names have been duly registered as trademarks of the Company.
- Obtain a list of all patents, trademarks, copyrights and trade names so as to order searches.
- Determine the status of such patents, trademarks, copyrights and trade names.
- Determine if there are any disputes or infringement claims regarding any of the foregoing or any intellectual property claims of other persons.
- Obtain a list of proprietary processes controlled by the Company.
- Review contracts granting or receiving licenses for intellectual property rights.
- Review contracts granting rights to future products developed by the Company.

D. Liabilities:

- Review the current accounts payable listing.
- Obtain a list of all accounts payable to employees.
- Review the terms of any lines of credit.
- Review the amount and terms of any other debt agreements. Review covenants in the debt agreements, and determine if the company has breached the covenants in the past, or is likely to do so in the near future.
- Look for unrecorded debt.
- Verify wage and tax remittances to all government entities, and that there are no unpaid amounts.
- Review the sufficiency of accruals for wages, vacation time, legal expenses, insurance, property taxes, and commissions.
- Obtain copies of all unexpired purchasing commitments (purchase orders, etc.).
- Investigate any potential warranty, environmental, legal, and regulatory non-compliance issues.

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E. Equity:

- Obtain a shareholder list that notes the number of shares held and any special voting rights.
- Review all Board resolutions authorizing the issuance of stock to ensure that all shares are validly issued.
- Review all convertible debt agreements to which the company or any subsidiary is a party. Note any restrictions on dividends, on incurring extra debt, and on issuing additional capital stock. Note any unusual consent or default provisions. Note the conversion trigger points.
- Review any disclosure documents used in the private placement of securities or loan applications during the preceding five years.
- Review all documents affecting ownership, voting or rights to acquire the company's stock for required disclosure and significance to the purchase transactions, such as warrants, options, security holder agreements, registration rights agreements, shareholder rights, or poison pill plans.
- Determine if any stock option or purchase plans exist for officers or employees of the Company.
- Compare the Company's stock option or purchase plans with those of competitors to assess the Company's ability to obtain and retain skilled employees.

F. Profitability:

- Obtain audited financial statements for the last three years.
- Obtain monthly financial statements for the current year.
- Obtain copies of federal tax returns for the last three years.
- Determine profitability by product, customer, and segment.
- What are the revenues and profits per employee?
- What is direct materials expense as a percentage of revenue?
- How have revenues, costs, and profits been trending for the past three years?
- How many staff is directly traceable to the servicing of specific customer accounts?
- Are there any delayed expenses? Has the customer avoided necessary maintenance expenditures or wage increases in order to boost profitability?
- Has the company capitalized a disproportionate amount of expenses?
- Obtain the budgets for the past three years. Does the company routinely achieve its budgets, or does it fall short?
- Obtain budget projections or business plans for the Business and the Company and review with Company officials to determine any material changes in the financial position of the Business and the Company and compare past budgets and projections with actual experience in order to assess the accuracy of management estimates.
- Obtain copies of letters to the Company's auditors with respect to current, pending or threatened lawsuits or Company with respect to current, pending or threatened lawsuits or litigation or regulatory actions by or against the Business and the Company.

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G. Cash Flow:

- Construct a cash flow forecast for the next six months. Will the company spin off or absorb cash?
- Review the trend line of work capital for the past year. How is it changing in relation to total sales?
- Categorize working capital by segment, product line, and customer. What parts of the business are absorbing the most cash?
- Determine historical and projected capital expenditure requirements. Does the company have enough cash to pay for its capital investment needs?

H. Taxes:

- Request copies of tax returns and any audit reports (federal, state or local) for the last five years.
- Note the date of the last tax audit and obtain a list of pay notices received or notices of assessment contemplated by Internal Revenue Service.
- Evaluate the effect of changes in tax laws, to the future operation of the Business.
- Assess any potential tax liabilities.

I. Audits:

- Arrange full "due diligence" meeting with the auditors of the Company to review and consider the following matters in respect of the Business:
 - the financial statements and financial forecasts;
 - any recent, proposed or contemplated changes in the accounting policies of the Company;
 - the relationship of the auditors and management concerning, among other things, access of the auditors to any necessary information and including any difficulties with any prior audit or reports on the financial statements;
 - the substance and resolution of any recent significant accounting policies or issues discussed between the Company and its auditors with respect to the preparation of the financial statements;
 - the adequacy of the companies internal controls and accounting methods with respect to financial matters, including their internal reporting system, the recording of sales and expenses and other matters;
 - the comments and opinions of the auditors with respect to the general fairness of the accounting policies and the presentation of the financial statements;
 - the function or role, if any, of the auditors in respect of the preparation and issuance by the Company of interim unaudited financial statements; and
 - The actual post-audit results relative to interim unaudited results or with respect to any projections, forecasts and budgets prepared by the management of the Company prior to the completion of any audit on the financial statements.

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- Discuss the nature and scope of the review and examination by the auditors of the financial statements.
- Discuss the nature and scope of the review and examination by the auditors of any financial forecasts.
- Review and discuss any oral or written supplementary financial or management reports or letters to management prepared by or initiated from the auditors to the Company or its financial officers with respect to any aspect of the Company's system of accounting, financial reporting or record-keeping.
- Review and discuss transactions by the Company with any affiliated companies and the method of reflecting these transactions in such Company's financial statements.

J. Insurance & Risk Management:

- Is there a risk management officer? What is this person's job description?
- Does the company have an overall risk mitigation plan that it updates regularly?
- Review all corporate insurance, using a schedule from the company's insurance agency. If there is material pending litigation, determine the extent of insurance coverage and obtain insurance company confirmation. Note whether insurance terms are for "claims made" or "claims incurred," as well as the amounts of deductibles.
- Have aggregate insurance amounts been penetrated, or is there is history of coming close to the aggregate totals?
- Have there been substantial premium adjustments in the past?
- To what extent does the company self-insure its activities? Are there uninsured risks that the company does not appear to be aware of or is ignoring?
- Review any key-man insurance and present value calculation.
- Review product liability insurance, including description of claims history.

VI TECHNOLOGY

A. Information Technology:

- What systems use third-party software, and which ones use custom-built solutions? Are the third-party systems under maintenance contracts, and are the most recent versions installed?
- To what degree have third-party systems been modified? Have they been so altered that they can no longer be upgraded?
- Are user computers monitored for unauthorized software installations?
- Are software copies secured and only released with proper authorization?
- What is the level of difficulty anticipated to integrate the company's databases into the buyer's systems?
- Are there adequate backup systems in place with offsite storage, both for the corporate-level databases and for individual computers?
- What is the level of security required for access to the company's servers?

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B. Business Technology:

- Review the research and development plans of the Business to determine whether any radical changes in product direction are anticipated and what cost burden will be imposed on the Business in coming years.
- Evaluate the effectiveness of research and development personnel and organization to assess the capacity for technological innovation of the Business.
- Review royalty contracts for contingencies, etc. and contact the licensees to determine the existence of any agreement or understanding that varies the terms of the contracts.
- Evaluate other professional affiliations of management or research and development personnel (e.g. academic) to assess the likelihood of competing claims on technology of the Business.
- Determine whether the Business's exports are consistent with export control laws.

C. Internet:

- Does the company use the Internet for internal use as an interactive part of operations? What functions are used in this manner?
- Has the company's firewall ever been penetrated, and how sensitive is the information stored on the company network's publicly available segments?
- Does the company provide technical support information through its Web site?
- Are Web site usage statistics tracked? If so, how are they used for management decisions?
- In what way could operational costs decrease if the company's customers interacted with it through the Internet?

VII Legal Management

A. General Legal Issues:

- Obtain the articles of incorporation and bylaws. Review for the existence of pre-emptive rights, rights of first refusal, registration rights, or any other rights related to the issuance or registration of securities.
- Review the bylaws for any unusual provisions affecting shareholder rights or restrictions on ownership, transfer or voting of shares.
- Obtain certificates of good standing for the company and all significant subsidiaries.
- Review the articles of incorporation and bylaws of each significant subsidiary. Determine if there are restrictions on dividends to the company. For each subsidiary, review the minutes of the Board of Directors for matters requiring disclosure.
- Obtain a list of all states in which the company is qualified to do business and a list of those states in which it maintains significant operations. Determine if there is any state where the company is not qualified but should be qualified to do business
- Obtain the minutes from all shareholder meetings for the past five years. Review for proper notice prior to meetings, the existence of a

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- quorum, and proper voting procedures; verify that stock issuances have been authorized; verify that insider transactions have been approved; verify that officers have been properly elected; verify that shares are properly approved and reserved for stock option and purchase plans.
- Obtain the minutes of the Executive Committee and Audit Committee for the past five years, as well as the minutes of any other special Board committees. Review all documents.
 - Review all contracts that are important to operations. Also review any contracts with shareholders or officers. In particular, look for the following provisions:
 - Default or termination provisions
 - Restrictions on company action
 - Consent requirements
 - Termination provisions in employment contracts
 - Ownership of technology
 - Cancellation provisions in major supply and customer contracts
 - Unusual warranties or the absence of protective provisions
 - Obtain copies of all asset leases, and review for term, early payment, and bargain purchase clauses.
 - Obtain copies of all office space lease agreements, and review for term and renewal provisions.
 - Review all related party transactions for the past three years.
 - Review the terms of any outbound or inbound royalty agreements.
 - Was any company software (either used internally or resold) obtained from another company? If so, what are the terms under which the code is licensed? Are there any associated royalty payments?
 - Review all legal invoices for the past two years.
 - Review all pending and threatened legal proceedings to which the company or any of its subsidiaries is a party. Describe principal parties, allegations, and relief sought. This includes any governmental or environmental proceedings. Obtain copies of existing consent decrees or significant settlement agreements relating to the company or its subsidiaries.
 - If the company is publicly held, obtain all periodic filings for the past five years, including the 10-K, 10-Q, 8-K, and Schedule 13D.
 - Review all annual and quarterly reports to shareholders.
 - Review the auditors' letter to management concerning internal accounting controls and procedures, as well as any management responses.
 - Review any reports of outside consultants or analysts concerning the company.
 - Research any press releases or articles about the company within the past year.
 - Review all related party transactions for the past three years.
 - Review the terms of any outbound or inbound royalty agreements.
 - Was any company software (either used internally or resold) obtained from another company? If so, what are the terms under which the code is licensed? Are there any associated royalty payments?
 - Review title insurance for any significant land parcels owned by the company.

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- In respect of all material contracts, review for assignability, enforceability, breaches and escalation clauses.
- Obtain copies of all:
 - o franchise, user or license agreements and ancillary documents;
 - o franchise, user or license registrations or disclosure documents;
 - o government licenses and permits;
 - o warranties of products sold and warranty claim history;
 - o contracts with and liabilities to insiders or other affiliates;
 - o secrecy or non-competition agreements;
 - o membership agreements;
 - o powers of attorney and agency agreements;
 - o contracts or arrangements which individually provide for the payment or receipt by the Business of \$10,000 or more, including but not limited contracts from purchase and sale of goods and services; and
 - o all other contracts which materially affect the Business;
- Review proposed contracts or negotiations.
- Obtain all material consents of private persons or entities required to be obtained by or on behalf of the Business.

B. Intellectual Property:

- Review all current patent, trademark, service mark, trade name, and copyright agreements, and note renewal dates.
- Obtain an itemization of all pending patent applications.
- Determine annual patent renewal costs.
- Determine the current patent-related revenue stream.
- Document the patent application process. Have any potential patents not been applied for?
- List all trademark and service mark registrations and pending applications for registration. Verify that all affidavits of use and renewal applications have been filed, and prosecution of all pending applications is current.
- List all unregistered trademarks and service marks used by the organization.
- Collect and catalog copies of all publications and check for unlisted trademarks and service marks, proper notification.
- List all copyright registrations.
- List all registered designs.
- Does the company have any information that provides a competitive advantage? If so, verify that the information is marked as "confidential."
- Have all employees executed Invention Assignment and Confidentiality agreements?
- Obtain copies of all licenses of intellectual property in which the company is the licensor or licensee.
- List all lawsuits pertaining to intellectual property in which the organization is a party.

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C. Regulatory Compliance:

- Review the company's correspondence with the Securities and Exchange Commission, any national exchange, or state securities commission, other than routine transmittals, for the past five years. Determine if there are or were any enforcement or disciplinary actions or any ongoing investigations or suggestions of violations by any of these entities.
- Review any correspondence during the past five years with the Environmental Protection Agency, Federal Trade Commission, Occupational Safety and Health Administration, Equal Employment Opportunity Commission, or Internal Revenue Service. Determine if there are any ongoing investigations or suggestions of violations by any of these agencies.
- Review any required regulatory compliance and verify that necessary licenses and permits have been maintained, as well as ongoing filings and reports.
- If there is a General Service Administration schedule, when does it come up for renewal?
- Obtain copies of the most recently filed EEO-1 and VETS-100 forms.
- Obtain copies of any affirmative action plans.
- Obtain copies of any open charges of discrimination, complaints, or related litigation, or any such cases that have been closed within the past five years.

VIII Environmental Matters:

- Identify where finished product, inventory and raw materials are being stored.
- Identify methods of waste disposal:
 - paperboard waste;
 - hazardous waste;
 - effluents.
- Determine whether there are any drums or waste buried on plant premises.
- Determine whether any plants are subject to an environmental compliance schedule, consent order or administrative order and whether any plant received notice that it is not in compliance with applicable environmental laws.
- Determine if any plants operate under an air or water pollution permit.
- Determine if any plants have underground tanks. If so, obtain a description of them including age.
- Provide general information about the age of the plant(s), former operations, prior land use, prior owners to the extent possible.
- Determine whether any environmental audits or assessments have been done. If so, obtain copies of reports.
- Describe the status of the environmental clean-up efforts in progress.
- Determine what steps have been taken to ensure compliance with the Environmental laws.
- Determine environmental problems, and what the Company plans to spend between (dates) on environmental matters.

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IX MISCELLANEOUS DUE DILIGENCE

A. Policies and Procedures:

- Obtain the accounting policies and procedures manual.
- Review all key accounting policies to ensure that they comply with generally accepted accounting principles.
- Obtain the standard offer letter format, the standard termination letter format, and the employment application form.
- Obtain the human resources policies relating to sexual harassment, background investigations, and drug testing.

B. The Purchase Transaction:

- If the transaction involves the issuance of stock, are there sufficient authorized shares for the offering, including any conversion rights, taking into account any shares reserved for issuance pursuant to outstanding options, warrants, convertible securities and employee benefit plans?

C. Red Flag Events:

- Has an auditor resigned within the past three years?
- Is there evidence of continual changes in accounting methods?
- Are there unusually complex business arrangements that do not appear to have a business purpose?
- Is the company continually exceeding its loan covenant targets by very small amounts?
- Do any of the principals have criminal records?
- Have there recently been significant insider stock sales?
- Is the internal audit team subjected to significant scope restrictions?
- Are a large proportion of monthly sales completed during the last few days of each month?
- Has the company tried to sell itself in the past and failed?
- Has the company received major warnings from regulatory agencies?
- Does the company appear to manipulate reserve accounts in order to smooth or enhance its reported earnings?

REFERENCES:

www.pioneerbusinessventures.com

www.accountingtool.com

www.i.b5z.net