

## **Due Diligence Process**

Notify the prospective company that PAN has voted to proceed with due diligence. A letter should be sent which informs the company what to expect. A request for specific documents should also be made at this time.

The PAN Due Diligence Committee should comprise 3 primary members. Up to 5 additional members should be identified who are willing to serve as “experts” in areas relevant to the specific company and critical to the due diligence process.

A due diligence procedure outline will be furnished to the chairperson.

The Due Diligence Committee’s deadline for completion is 5 business days prior to the next scheduled PAN meeting. A summary of the Due Diligence Committee’s findings will be available for download from the PAN website.

# **Committee's Overall Assessment**

## **Open Group discussion addressing general issues and intuition:**

Discuss general issues that members have with the company

What nags at you or makes you uncomfortable about the company?

## **Group discussion and documentation concerning:**

Product or Service Issues

Management's effectiveness and vision

Summary including current amount of cash, monthly burn rate and next source of capital

Challenges to major financial assumptions

What does \$250,000 buy for the company?

## **Group summary discussion:**

Situation

Strengths

Deal Risk Factors

Investment Risk Factors

Critical success factors

Investment Potential

Conclusion (what is the bet?)

## **If PAN makes an investment, what areas would need monitoring:**

# Due Diligence for: Virtuoso Works, Inc.

Areas to Research	Volunteer	Est. Hours
Misc. Company Information	Roddy Davis	_____
Executive Management And Consultants	Andy May	_____
Legal	Roddy Davis	_____
Intellectual Prop.	Roddy Davis/ Charles Calkins	_____
Product or Service	Larry Sharp/ Michael Cooney	_____
Marketing	Andy May	_____
Competition	Michael Cooney	_____
Competitive Advantage	Michael Cooney	_____
Financials	LAF-Stec	_____
Valuation	Andy/Lou Anne	_____
Investors	N/A	_____
Exit Strategy	Andy May/ Michael Cooney	_____

**Other areas to research:**

Product Development	Larry Sharp	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

## **Miscellaneous Company Information**

### **Check all documents supplied by company:**

#### Corporate Documents

Documents furnished to shareholders and directors over the last two years

#### Other Company Information

Company press releases

Articles relating to the Company or its industry

Company newsletters

Any other material information or documents

**Review and distribute to appropriate member of committee**

**Executive Management  
And Consultants**

**Consensus Rating \_\_\_\_\_**

**Check all documents supplied by company:**

Directors, Management and Personnel

- List of Company's Directors
- Management organizational chart and bios of senior personnel
- Detail of various employee compensation plans including pension, option, profit sharing, deferred compensation and retirement
- Detail of various management incentive plans including pension, option, profit sharing, deferred compensation, retirement and any non-cash compensation
- Confidentiality Agreements with employees
- Consulting Agreements

**Critical Positions Performed by:**

President/CEO \_\_\_\_\_

CFO \_\_\_\_\_

Marketing \_\_\_\_\_

Sales \_\_\_\_\_

Operations \_\_\_\_\_

Technical \_\_\_\_\_

**Senior Personnel Review**

Name: \_\_\_\_\_ Title: \_\_\_\_\_ Date Hired: \_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_ Date Hired: \_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_ Date Hired: \_\_\_\_\_

Name: \_\_\_\_\_ Title: \_\_\_\_\_ Date Hired: \_\_\_\_\_

**Active Personnel Search**

Title: \_\_\_\_\_

Title: \_\_\_\_\_

**Executive Management  
And Consultants**

**Consensus Rating \_\_\_\_\_**

**Name:** \_\_\_\_\_

Current Areas of Responsibility:

Direct industry experience:

Other Relevant Business Experience:

Involvement in prior startup (role, success)

Strengths:

Weaknesses:

Major milestones hit in the past 12 months:

Three most important milestones for the next 12 months:

**Team Interaction**

**Communications** (how often group meetings- get last agenda)

**Planning Process** (milestones with dates)

**Problem solving process** (id and describe last major company problem solved)

**Decision making process** (fork in the road – critical business decision must be made, describe process, team members involved and role of each)

Discuss all people listed under “Critical Positions Performed by” and uncover perceived strengths and weaknesses.

\_\_\_\_\_ - **Individual Ratings**

member 1 \_\_\_\_\_

member 2 \_\_\_\_\_

member 3 \_\_\_\_\_

member 4 \_\_\_\_\_

## Legal Issues

Consensus Rating \_\_\_\_\_

### Check all documents supplied by company:

#### Corporate Documents

- \_\_\_ Articles of Incorporation
- \_\_\_ Bylaws
- \_\_\_ Minutes of Board of Directors, Committee and Shareholder meetings
- \_\_\_ Documents furnished to shareholders and directors over the last two years

#### Contracts and Agreements

- \_\_\_ List of Bank and non-Bank lenders
- \_\_\_ Joint venture and partnership agreements
- \_\_\_ License agreements
- \_\_\_ Purchase agreements
- \_\_\_ Property Lease agreements
- \_\_\_ Liens, equipment leases, mortgages or any other outstanding loans
- \_\_\_ Insurance contracts and agreements
- \_\_\_ Any additional agreements or contracts relevant to the business of the Company including contracts with suppliers, vendors and customers

#### Governmental Regulations

- \_\_\_ Copies of any permits and licenses
- \_\_\_ Copies of reports made to government agencies
- \_\_\_ Detail of any enquiries made by any local, state or federal agencies including OSHA, EPA, EEO and any others

#### Litigation

- \_\_\_ Description of any current litigation including potential damages
- \_\_\_ Description of any potential litigation including potential damages
- \_\_\_ Settlement documentation

#### Directors, Management and Personnel

- \_\_\_ Detail of any labor disputes
- \_\_\_ Confidentiality Agreements with employees
- \_\_\_ Consulting Agreements

### Other Points to Consider:

### Summary statement:

### Legal Issues - Individual Ratings

member 1 \_\_\_\_\_

member 2 \_\_\_\_\_

member 3 \_\_\_\_\_

member 4 \_\_\_\_\_

**Intellectual Property**

**Consensus Rating** \_\_\_\_\_

**Check all documents supplied by company:**

Property and Equipment

- \_\_\_ Copies of all patents/published applications
- \_\_\_ Copies of all (it started with a pe I think) applications
- \_\_\_ List all trademarks/service marks being used
- \_\_\_ List all trademark registrations
- \_\_\_ Provide registrations

**Intellectual Property - Individual Ratings**

member 1 \_\_\_\_\_ member 2 \_\_\_\_\_ member 3 \_\_\_\_\_ member 4 \_\_\_\_\_



**Product or Service**                      **Consensus Rating** \_\_\_\_\_

**Check all documents supplied by company:**

**Product or Service**

- \_\_\_\_ Detail of product offering including potential market share by product line
- \_\_\_\_ List of all major suppliers including dollar amount purchased per year
- \_\_\_\_ Warranty and returns policy

**Research & Development**

- \_\_\_\_ Research in progress
- \_\_\_\_ Documentation policies including examples

**Federal and State Regulations**

**Stage of Development**

**Product Cost Analysis**

**Product Comparison with Competition**

**Intellectual Protection**

**Technical Development Team Status**

**Ongoing Research**

**Product or Service - Individual Ratings**

member 1 \_\_\_\_\_      member 2 \_\_\_\_\_      member 3 \_\_\_\_\_      member 4 \_\_\_\_\_

## **Marketing**

**Consensus Rating** \_\_\_\_\_

**Check all documents supplied by company:**

### **Marketing**

- \_\_\_ List of major clients
- \_\_\_ Current brochures and marketing materials
- \_\_\_ Sales commission structure
- \_\_\_ Sales projections by product line
- \_\_\_ Any pertinent marketing studies conducted by outside parties

**Barriers to Market Acceptance**

**Strategic Partners**

**Time To Market**

**Quality of Major Clients**

**Challenges to Sales Forecast Assumptions**

**Analysis of Sales Commission Structure**

**External Promotion Cost (advertising, marketing consultants)**

**Marketing - Individual Ratings**

member 1 \_\_\_\_\_

member 2 \_\_\_\_\_

member 3 \_\_\_\_\_

member 4 \_\_\_\_\_

**Competition**

**Consensus Rating** \_\_\_\_\_

**Check all documents supplied by company:**

**Marketing**

\_\_\_\_ List of competitors and detail of market share

\_\_\_\_ Analysis of pricing strategy

**Competition - Individual Ratings**

member 1 \_\_\_\_\_

member 2 \_\_\_\_\_

member 3 \_\_\_\_\_

member 4 \_\_\_\_\_

**Competitive Advantage**

**Consensus Rating** \_\_\_\_\_

**Competitive Advantage - Individual Ratings**

member 1 \_\_\_\_\_

member 2 \_\_\_\_\_

member 3 \_\_\_\_\_

member 4 \_\_\_\_\_

## Financials

Consensus Rating \_\_\_\_\_

### Check all documents supplied by company:

#### Financial Information

- Audited financial statements since inception including Income Statements, Balance Sheets, Statements of Cash Flow and Changes in Equity Position
- Detail of accounting methods and practices
- Internal monthly or quarterly statements
- Budgets and financial projections
- Business Plans
- Accounts Receivables
- Accounts Payable
- Detail of pricing plans and policies
- A breakdown of revenue and gross margins by product line or service
- Analysis of any extraordinary income or expenses
- Analysis of any material write-downs or write-offs
- A summary of any bad debt experience
- Detail of any outstanding contingent liabilities
- Any reports from outside consultants or accountants on the Company's financial condition

#### Tax Status

- Federal and state income tax returns for the last three years

#### Property and Equipment

- An appraisal, including age, of all equipment and fixed assets of the
- List of all real property owned by the
- Recent appraisals and property surveys
- Titles, mortgages, deeds of trust and any other agreements relating to Company-owned real property
- Detail of any easements or other encumbrances
- Leases and sub-leases
- Expansion plans

### Financials - Individual Ratings

member 1 \_\_\_\_\_

member 2 \_\_\_\_\_

member 3 \_\_\_\_\_

member 4 \_\_\_\_\_

Valuation

Consensus Rating \_\_\_\_\_

**Valuation - Individual Ratings**

member 1 \_\_\_\_\_

member 2 \_\_\_\_\_

member 3 \_\_\_\_\_

member 4 \_\_\_\_\_

**Investors**

**Consensus Rating** \_\_\_\_\_

**Check all documents supplied by company:**

**Previous Securities Issuance**

- \_\_\_\_ Sample copies of stock certificates, warrants and options
- \_\_\_\_ Stockholder information, including dates of issuance, number of outstanding shares and percent ownership
- \_\_\_\_ Detail of any outstanding preferred stock, including covenants
- \_\_\_\_ Detail of any outstanding options, warrants or convertible securities
- \_\_\_\_ Information on stock option, stock purchase and other employee stock benefit programs

**Role of Investors (Employees)**

**Role of Outside Investors**

**Investors - Individual Ratings**

member 1 \_\_\_\_\_ member 2 \_\_\_\_\_ member 3 \_\_\_\_\_ member 4 \_\_\_\_\_

**Exit Strategy**

**Consensus Rating \_\_\_\_\_**

**Exit Strategy - Individual Ratings**

member 1 \_\_\_\_\_

member 2 \_\_\_\_\_

member 3 \_\_\_\_\_

member 4 \_\_\_\_\_