

INVESTOR or PURCHASER SHORT FORM DUE DILIGENCE GUIDE

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Project Team -- Internal and External

Area	Investor/Buyer Reps. & Phone #s	Company Reps. & Phone #s
Overall Team Leader		
Financial Statements and backup		
Tax Planning		
Banking and Financing		
Legal		
Human Resources/Labour		
Sales & Marketing		
Physical Plant/Environmental		
Manufacturing		
MIS Systems		

Project Timetable

What	When	Who
Deliver Investor/Buyer's Initial Disclosure Request		Investor
Initial Company Disclosure Assembled for Review		Vendor
First Round of Disclosure Review		Investor & Vendor
Investor/Buyer's Supplemental Disclosure Request		Investor
Second Round of Disclosure Review		Investor & Vendor
Verification with Third Parties/Begin working on Third Party Consents		Investor & Vendor
First Draft of Definitive Agreement		Investor
First Draft of Schedules		Vendor
First Draft of collateral closing documents		Investor
Closing		Investor & Vendor

Investor or Purchaser's Disclosure Request

*Note that many of these may become Schedules to the Definitive Agreement.
Review this list and results with counsel for both parties
during agreement drafting.*

Basic Corporate Documents

- Certificates/articles of incorporation, including all amendments.
- By-laws, including all amendments.
- Minutes of all meetings and written consent of directors, committees of directors and shareholders (for the past three years).
- List of all provinces and countries where property is owned or leased or where employees are located and a brief statement of the nature of the business conducted in each location.
- List of all provinces and countries where parent and its subsidiaries are qualified to do business.
- List of all subsidiaries describing the nature of ownership.
- Access to and opportunity to review company minute book.

Documents for any Subsidiary

- Same as those listed above.

Shareholder Information

- Shareholders list as of a recent date, including shareholder name, type of share and stated capital for same.
- List of all shareholders' loans or other non-third party debt including who holds the loan, current balance and interest rate, payment terms and security held (if any).
- List of any shareholder guarantees or other third party obligations that must be released on or before closing.
- List of outstanding options and warrants, including date of grant, exercise price, number of shares subject to option, names of option holders.
- Contacts or plans concerning outstanding or proposed stock options, warrants or rights.

Financial Information

- Accountant prepared financial statements including historical quarterly financial statements for the three most recent fiscal years.
- Management letters or special reports by auditors and any responses thereto for the three most recent fiscal years.
- Internal financial statements for current fiscal year to date.
- Current aged schedule for accounts receivable, accounts payable, work in process and inventory.
- Summary of all accounts receivable, inventory or work in process written down or written off

during past three years by customer.

- Financial operating plans for the three most recent fiscal years, including any current projections or pro formas.
- If available, material (including financial projections) distributed to members of the Board of Directors and committees thereof in connection with recent meetings for the three most recent fiscal years.
- Describe any changes in accounting methods or principles used in last three years.

Corporate Finance

- Bank line of credit agreements, including any amendments, renewal letters, notices, waivers, etc.
- Other documents and agreements evidencing borrowings, whether secured or unsecured by the Company, including loan and credit agreements, promissory notes, and other evidences of loans and guarantees.
- All documents and arrangements evidencing other material financing arrangements, including shareholder loans, sale and lease arrangements, installment purchases, etc.
- Particulars of all equipment leases, including copies.
- Particulars of all secured debt of any kind, including shareholder secured loans.
- Correspondence with lenders, including all compliance reports submitted by the Company or its independent public accountants (for the three most recent fiscal years).

Taxation and Government Compliance

- List of all jurisdictions where the company maintains premises or has employees.
- Copy of foreign, Canadian, provincial and local income tax returns for the three fiscal years and their status.
- Status of compliance with foreign, Canadian and provincial regulations.
- Access to all files and with respect to income tax returns, GST returns, PST returns, WCB files, EHT returns, and similar or other government filings in returns in all matters related to taxation, environmental and employee issues for the past three years.
- Particulars of any outstanding government investigations, orders or administrative proceedings of any kind, whether federal, provincial or municipal.

Operations

- List of major suppliers showing total and type of purchases from each supplier during the last and current fiscal years.
- Material contracts in the ordinary course of business (e.g. contracts within the last three years relating to joint ventures, partnerships, acquisitions or dispositions).
- Particulars of any material contract of service or supply which the buyer will assume or which can not be cancelled without penalty immediately following closing.
- Form of product warranties of the Company and warranties claim history for past three years.

Products and Competition

- List of any trademark, trade names, brands, copyrights, or service marks.
- Permits for conduct of business, including licenses, franchises, concessions, and distribution agreements and conditional sales contracts.
- List of principal products in each line of business with short description of each product.
- List of principal competitors by product.

Sales and Marketing

- List of company's largest customers, indicating sales amounts and the nature of the transaction related to broad aspects of the business, operations, or products of the Company.
- Samples of marketing and sales literature used for various products.
- Copies of any current sales and marketing plans, promotions or programs.

Employees

- Company organization chart with location and number of employees in each square.
- List of employees by department with name, position, date of hire, current compensation, whether written employment agreement, termination agreements, whether or not any written restrictive covenants in place
- Forms of employment agreements and employee confidentiality agreements.
- Employee benefit, pension, profit sharing, compensation and other plans.
- Collective bargaining agreements and employee confidentiality agreements.
- Description of commission paid to managers, agents or other employees.
- Description of any significant labor problems or union activity the Company has experienced, including any competitive bargaining agreements.
- Access to all WCB, employee disability claims, EI, CPP, EHT, Human Rights, Employment Standards Act and Labour Act files and records for past three years

Officers and Directors

- Management employment agreements, including severance/golden parachute particulars.
- Schedule of all compensation paid in the last three years to officers, directors, and key employees, separately showing salary, bonuses, and non-cash compensation (e.g. use of cars, property, etc.)
- Bonus plans, retirement plans, pension plans, deferred compensation plans, profit sharing and management incentive agreements.
- Agreements for loans to and any other agreements (including consulting and employment contracts) with officers, or directors, whether or not now outstanding.

- Description of any transaction between the Company and any “insider” (i.e., any officer, director or owner of a substantial amount of the Company’s securities) or any associate of an “insider,” or between or involving any two or more such “insiders.”

Tangible and Real Property

- List of material real and personal property used, owned or leased by the Company, and location of same, including full particulars of any motor vehicles.
- Documents of title, mortgages, deeds of trust, leases and security agreements pertaining to the properties listed above.
- Summary of any issues of repair or damage related to same.
- Description of any environmental issues or toxic waste in use or storage, and copies of any environmental reports, studies, orders or correspondence.
- Particulars of any outstanding work orders or compliance orders of any kind.

Intellectual Property

- List of material intellectual property owned or licensed to or by the Company, including patents, patents pending, trade marks, business names, industrial designs, computer programs, franchise agreements, distribution agreements, agency agreements, etc.
- Documents of title including patents granted, patent applications, trade marks granted, pending applications, license agreements, contracts and other agreements.

Litigation and Audits

- All letters from counsel sent to auditors for the year-end and current interim audits – i.e., “litigation letters” – for the three most recent fiscal years.
- Pleadings and or material documents regarding any material litigation, arbitration or investigation to which the Company is a party or in which it may become involved.
- Information regarding consent decrees, judgments etc. under which the Company has continuing or contingent obligations.

Insurance

- Schedule or copies of all material insurance policies of the Company covering property, liabilities, and operations.
- Schedule of any other insurance policies in force such as “key man” policies, director indemnification policies or product liability policies.

Third Party Consents and Approvals

- List of any third party consents or approvals required for closing, including copies of supporting documents, names, telephone numbers, addresses, etc. (e.g. lenders, landlords)

***Note:** This a summary only and should be used as the basis for developing a checklist of items to be investigated and not as a definitive list that applies to all deals.*