

PRE-M&A BUSINESS HEALTH CHECKLIST



You can use this "health check" for discovery. It helps identify areas that need attention -- either immediately or longer term.

by Neal Miller and Sherwin Krug

1 COMPANY OVERVIEW

Organization chart. Corporate Structure and Type of Corporation. Executive Team Bios. About Us - Presenting the Company Deck. Strategic Plan / Strategic Planning Sessions. 3 and 5-Year Goals. Competitor Analysis



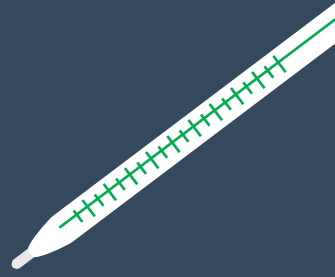
2 LEGAL

State of Incorporation. Registered Agent. Registration and a Foreign Entity. Capitalization Table. Capital Structure. Common Stock / Preferred Stock / Warrants. Stock Option Plan and Awards. Profits Interest Plan and Awards. Operating Agreement. Shareholder Agreement. Investor Documents (Series A, etc.)



3 FINANCIAL

Income Statement (Revenue, COGS, G&A, Sales & Marketing, R&D Expense). Balance Sheet. Cash Flow Statement. Financial Model. Revenue Recognition Issues. Capitalized Software Policy. Capitalization of Assets Threshold. Goodwill and Intangibles Amortization Policy. Budget / Forecast. Financial Systems - Billing Systems. Banking. Credit Cards. Treasury Function. Monthly Reporting / Flash Reports + Dashboard. Approval Authorities / Tables / \$ Thresholds. Non-Cash Compensation Expense Calculation / Black-Scholes Calculation. Audit Timing. New Customer Credit Application. Lease Arrangements. Royalty Arrangements. Related Party Transactions. Cash vs. Accrual. Financial Metrics - Margins, Days Sales Outstanding (DSO) etc. Business Unit / Department Reporting with Executives. Business Metrics. Best Practice Review. SaaS Metrics. GAAP Checklist.



4 SALES & MARKETING

Salesforce.com or Other CRM. Pipeline. Customer Presentations. Marketing Materials. Commission Plans. Largest Customers 80:20 rule. Trademarks and Copyrights. Marketing Automation Software. Marketing (approved) Deck for Presentations. Letterhead. Search Engine Optimization.



PRE-M&A BUSINESS HEALTH CHECKLIST (CONTINUED)



5 TECHNOLOGY

Open Source Code List. Bugs Tracked List. Software License List. Roadmap. Topography. Product Management Software / Tracking. Intellectual Property Protection. Patents. IT Help Desk Support. Data Center. IT Security Policies and Procedures Disaster Recovery Plan

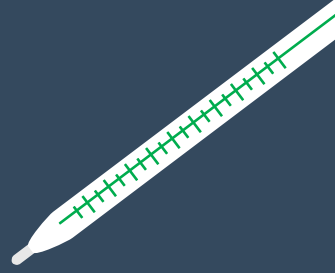
6 HUMAN RESOURCES

Employee Agreements Healthcare and Other Benefits Agreements 401 (k) Plans and audits / ERISA Employee Handbook Time and Expense Policies and Worksheet Compensation Philosophy Stock Option Awards Distribution Bonus Plans Onboarding (Employee Application Form. New Hire Process. Job Requisition. Job Descriptions.) Personnel Action. Form Code of Conduct. Performance Appraisal Forms. Non-Compete Agreements. Non-Solicitation Agreements. Assignment of Intellectual Property Agreement.



7 TAXES

Income Tax Returns. Sales Tax Returns. State Filings. City Business License / Property Taxes. Research and Development Credits. International Bank Accounts (FBAR). Tax Elections. Nexus Issues. Form K-1 Dates. Form W-9's. 83(b) Elections. FEIN. Transfer Pricing.



8 BOARD, GOVERNANCE & INVESTORS

Audit Committee Charter. Compensation Committee Charter. Minutes. Independent Board Member. Advisory Board. Compensation. Indemnification Agreements. Angel, PE and VC Firms. Management Team. Meeting Schedule.



9 RISK MANAGEMENT

D&O. E&O. Professional Indemnity. Employee Practices Liability Insurance (EPLI). Cyber Insurance. Umbrella Policy - Property and Casualty. Workers Compensation Insurance. Payment Card Industry (PCI) Compliance. Protected Health Information (PHI) Compliance. HIPAA Compliance.



PRE-M&A BUSINESS HEALTH CHECKLIST (CONTINUED)

10 CONTRACTS

Contract Management System. Non-Disclosure Agreements. Independent Contractor Agreements. Standard Sales Contract. Database of all signed Agreements, customers, vendors, partners, investors, other.

11 DEBT FACILITIES

Types of Covenants. Reporting Deadlines.

12 VENDORS

Payroll Service. Health Plan Vendors. 401(k) Vendor. Attorneys. Accountants/Auditors. Valuation Consultants. Investment Bankers. Lenders. IT Help Desk Provider. Data Center Provider and back-up. Key Partners.

The goal of using this checklist is to understand where the Company stands relative to each of the listed areas and items. Many of them will be "N/A" depending on the stage of the Company. These are many of the same issues that will be researched in either banking, equity or M&A due diligence and it's best to know the answers early on.

For some of these items, the Company will be in good shape. Others may require a level of cost vs risk analysis to determine if it's worth fixing now, or waiting until the Company is further along. In any event, doing this comprehensive review starts the Company on a path to being "Diligence Ready" and avoiding any last minute surprises that could derail a transaction.

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