

DUE DILIGENCE CHECKLIST

Item	Status
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1. Business Review

- a. History of the Company

- b. Product and services overview
 - i. Descriptions of products and services
 - ii. Major contracts and other material customer commitments
 - iii. Breakdown of sales by product / service and top ten customers (last 3 years)
 - iv. Historical and future product / service and volume discount structure

- c. Markets and competitors
 - i. Market studies – market size, definition, growth potential, trends and recent developments
 - ii. Principal competitors by product and estimated market share
 - iii. Comparison to competitors in terms of products, quality, pricing strategy, margins, technology, sales and distribution, strengths and weaknesses
 - iv. New entrants / substitute products
 - v. Other opportunities and risks in competitive environment
 - vi. Percentage penetration of total available market
 - vii. Percentage penetration of specific available market (excludes market where the company has no products)
 - viii. Seasonality, if any

- d. Business Strategy
 - i. Direction of technological changes
 - ii. Short and long-term risks / opportunities
 - iii. Vulnerability of current strategy
 - iv. Strategic partnerships, key distribution relationships, and revenue contribution
 - v. International / global issues

- e. Marketing & Sales
 - i. Organization
 - ii. Sales force and sales coverage
 - iii. Location, headcount of staff and growth expectations of headcount
 - iv. Description of selling process
 - v. Distribution channels (OEM, direct sales, distributors, representatives)
 - vi. Customer service and technical support description
 - vii. Warranty policies / claims and reserves
 - viii. Representative sales contracts (sales terms and conditions)
 - ix. Advertising and promotion by channel and marketing literature

1. Business Review (Continued)

- f. Research & Development
 - i. Focus of program and description of key technologies
 - ii. Expected development costs
 - iii. Budget by program
 - iv. Breakdown of personnel
 - v. Personnel growth expectations
 - vi. Previous new products / versions developed
Success of product / version development, quality issues, product
 - vii. life
cycle, time to market
Current / future product
 - viii. roadmap
 - ix. Proprietary rights on all products under development
 - x. Patents, trademarks, or licenses held or applied for
 - xi. Outsourced IP / relationships with 3rd parties
List of non-disclosure
 - xii. agreements
 - xiii. Disputes of intellectual property

2. Organization & Management

- a. Organization
 - i. Organization charts
 - ii. Ownership of subsidiaries, minority investments, and joint ventures, if any
 - iii. Legal entity chart
- b. Management
 - i. Resumes of key management and technical personnel
 - ii. Management compensation and contracts
- c. Employees
 - i. Departmental headcounts and location
 - ii. Headcount growth expectations
 - iii. Turnover statistics
 - iv. Dependency on specific key people
- d. Compensation Structures
 - i. Incentives plans (bonuses, stock options, savings plan)
 - ii. Retirement plans
- e. Human Resources Issues
 - i. Organization of human resources department
 - ii. Human resources headcount by function and experience
 - iii. Manual of personnel policies and procedures
 - iv. Description of employee benefit plans
 - v. Employee contracts and agreements
 - vi. Significant employment relations issues, past and present

2. Organization & Management (Continued)

- f. Management Information Systems (MIS)
 - i. Functional organization chart for all aspects of the MIS organization, including total headcount, technical expertise / qualifications, length of service, etc.
 - ii. Description of management information systems

3. Financial Review

- a. Historical Financials
 - i. Income statements (annual & quarterly, last three years)
 - Review of revenue recognition policies
 - Distribution of revenues (domestic vs. International, breakdown by product and customer)
 - Business segment data, if applicable
 - Discussion of gross margins, operating margins, and net margins
 - Discussion of cost of sales, marketing, SG&A, R&D, and corporate overhead expenses
 - Detailed customer bookings history
 - Identification of any large, one-time items, or the like, which should be excluded for valuation presentation purposes
 - Tax rate and tax liability exposure (R&D tax credits, foreign tax rates, foreign tax credits, deferred taxes, NOL's)
 - ii. Balance sheets (annual, last three years)
 - Review of cash and equivalents (expected year-end balance)
 - Discussion of major accounts
 - Receivables management practices (account concentration, collections, quality, reserves, doubtful accounts, write-off history, recoveries, overdue accounts, aging analysis, receivable policy)
 - Long-term investments
 - Schedule of total debt amounts and conditions (change of control, cross default provisions)
 - Long-term liabilities
 - Deferred liabilities
 - Prepaid and accrued accounts
 - Warranties and obligations under existing contracts
 - Reserves and customer claims
 - Off balance sheet assets (leases, joint ventures, minority investments, venture investments)
 - iii. Cash flow statements & financings (annual, last three years)
 - Sources and uses of cash
 - Capital expenditures
 - Depreciation and amortization policies and schedules

– Net working capital requirements

Status

3. Financial Review (Continued)

- iv. Audited (or reviewed) financial statements
 - v. Allocation of corporate overhead
 - vi. Backlog summary (funded vs. unfunded)
 - vii. Major contract summary
 - viii. Monthly controller's reports (latest 12 months)
 - ix. Annual management / board presentations and any recent board packages (last 3 years)
- b. Projected Financial Data (next two years)
- i. Business plans (next 2 years) (including income statements, balance sheets, cash flow statements)
 - ii. Sales pipeline analysis by customer / product
 - iii. Income statements
 - Discussion of major assumptions
 - Contracts assumed
 - Development programs
 - Competitive and / or technological changes assumed
 - iv. Cash flow statements
 - Investment needs
 - Maintenance and planned level of capital expenditures
 - Book and tax depreciation and amortization projections
 - Book and tax lives of assets
 - Financing needs
 - Net cash generating capacity
 - v. Balance sheets
 - Discussion of estimated changes in major accounts
 - Fixed assets changes
 - Indebtedness
 - Current liabilities
 - vi. Major contract summary
- c. Financial Reporting Organization
- i. Staffing and organization
 - ii. Financial reporting structure (collection & dissemination of data)
 - iii. Audit staffing (internal & external) and accounting controls

4. Other

- a. Articles and By-Laws (or equivalent) and Amendments, if any
- b. Certificate of Incorporation
- c. Litigation
 - i. Status of current or threatened litigation
 - ii. Contingent liabilities or assets
- d. Status with Government Regulatory Agencies (DoD, EPA, IRS, SEC, European Commission, etc.)
 - i. List of material government permits and licenses
 - ii. Correspondence with local, state or federal agencies
- e. Tax Audit Status including Tax Basis in Divisions / Subsidiaries and Tax Returns for Past Five Years
- f. Auditor's Management Letter, if applicable
- g. Capital Structure and Ownership
 - i. Detailed shareholder table with options, exercise prices, etc.
By major shareholder
 - ii. Detailed employee / director option schedule (issued and granted) including employees / directors participating, date of issue, cost, exercise price and terms
 - iii. Last round of financing documents
 - iv. Summary of debt instruments / bank line with key terms and conditions
- h. Acquisition and Divestiture Summary (including date, value, structure and description)
 - i. Definitive agreements for transactions
- i. Outstanding Contractual Relationships
 - i. Employment agreements with change of control provisions
 - ii. Contingent payments
- j. International Operations
 - i. Subsidiary structure
 - ii. Distribution agreements
 - iii. Products sold on an international basis
 - iv. International facilities
 - v. Sales force and marketing arrangements

- vi. Foreign tax position
- vii. Nature of foreign competition

4. Other (Continued)

k. Other Assets

- i. NOL's and non-operational assets

l. Non-Recurring Items, Discontinued Operations and / or Partnerships

m. Insurance Issues

- i. Summary of terms, coverage, limits, deductibles and premiums for all corporate insurance coverage, including property, liability, transit, foreign, workers compensation, directors and officers insurance, etc.
- ii. Loss information with respect to workers compensation, if any

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