

EXIT STRATEGY CHECKLIST

Thinking about positioning your company for sale? Or maybe you've been tasked with developing an exit strategy for your business and don't know where to begin. Either way, due diligence is an important starting point for any sound exit strategy.



What is “Due Diligence”?

According to Webster, due diligence is “the care that a reasonable person exercises to avoid harm to other persons or their property.” In a business sense, due diligence is an assessment of a potential investment and is the most crucial step regarding a sale. Much like the general definition, a wise business owner should exercise reasonable care when entering into a sales transaction to avoid harm to the business.

MORE INFORMATION = BETTER DECISIONS

Before entering into a contract, it is important to complete a comprehensive Due Diligence analysis, reviewing all financial records as well as intangible assets. A Due Diligence investigation is beneficial to a seller, as well as a buyer, and a thorough examination on the front end will save all parties time and money in the long run.

Investigating the answers to the questions on the following pages is critical to preparing your business for sale. Use the checklist that follows to identify areas of completion or action.



Instructions

- Check the “Yes” box if you have completed the item or possess the necessary documents to do so.
- Check the “No” box if you have not completed the item or still need to obtain the necessary paperwork.
- Check “N/A” if the question is Not Applicable to your business.

At the end of each category, you will be asked to tally up the subtotals. The “No” column is the most significant as it will show you which area of the business needs your immediate attention. After calculating each category, use the last two pages of the document to assess your readiness for market.

Now, let's take a look at your business...



Corporate Structure

Do you have...?	Yes	No	N/A
Corporate formation documents (<i>e.g.</i> , certificate of formation and operating agreement), including amendments?			
Corporate minutes of all meetings of managers and all meetings of members, and copies of all written consents?			
A list of all general and special powers of attorney granted by the Company, and copies of all public instruments containing such powers of attorney and the revocations thereof?			
A list of jurisdictions in which the Company is qualified to do business, operates its business, maintains inventory, owns or leases property or has employees, agents or independent contractors?			
A list of all current officers and managers?			
A list of all partially and wholly owned subsidiaries, including joint ventures, special purpose entities and all other entities in which the Company has an equity interest or with which the Company is otherwise affiliated, and an organizational chart showing ownership or affiliation of such entities?			
Documents related to established Corporate Governance Measures?			
Corporate and Subsidiary Allocation Procedures and Agreements?			
Any other agreements relating to registration rights?			
Subtotal			



Issuances of Equity Securities

Do you have...?	Yes	No	N/A
A capitalization table setting forth the number of authorized, issued and outstanding equity securities of the Company?			
Schedules of all issuances and grants of equity securities, options and warrants (including names of grantees, amounts issued or granted, dates of issuances or grants, consideration received by the Company in each case, exercise prices, expiration dates, vesting schedule, number of equity securities vested and unvested)?			
Copies of voting trust, member or similar agreements covering any portion of the Company's securities?			
Other Other agreements relating to sales of the Company's securities (<i>e.g.</i> , buy-sell agreements, right-of-first-refusal agreements)?			
Copies of all agreements or instruments containing restrictions on transfer, encumbrances upon or other restrictions with respect to securities of the Company?			
Copies of all current membership interest certificates issued by the Company and samples of warrants, options and any other outstanding securities?			
Copies of all equity award agreements?			
Membership interest purchase agreements that have been used for sales of any equity?			
Copies of all offering circulars, private placement memoranda and prospectuses relating to the offer or sale of the Company or its securities? Permits or other state, federal or foreign securities law filings for issuance or transfer of the Company's securities?			
Any other agreements relating to registration rights?			
Any agreements relating to the redemption of membership interests?			
Subtotal			



Pending or Threatened Litigation

Do you have...?	Yes	No	N/A
A schedule of all litigation, arbitration, administrative proceedings or governmental investigations or inquiries, whether pending or threatened, affecting the Company, including all matters relating to labor/employment?			
Copies of documentation and pleadings relating to any lawsuit?			
Settlement documents?			
Copies of all outstanding orders and judgments of any court or other administrative or regulatory body or arbitrator binding on the Company?			
Correspondence, memoranda and notes concerning any dispute with suppliers, competitors or customers regarding any claim for an amount in excess of USD \$10,000?			
Correspondence with auditors regarding threatened or pending litigation, assessments or claims?			
Correspondence, memoranda and notes or other inquiries from governmental authorities concerning tax matters, equal opportunities violations, consumer product safety matters, antitrust matters, environmental matters, or compliance with any other law, rule or regulation?			
Correspondence, memoranda and notes concerning any claim or potential claim involving the prior employment of any employee, contractor or consultant of the Company?			
Correspondence, memoranda and notes concerning warranty claims? Correspondence, memoranda and notes concerning any litigation involving a key supplier or customer that may have a material impact on the Company?			
Most recent fiscal year legal representation letters from in-house and outside counsel in conjunction with independent audit?			
Subtotal			



Tax and Audit

Do you have...?	Yes	No	N/A
Most Recent Tax Renditions – Assets, Physical Properties?			
Most Recent Ad Valorem and/or other Value-Based Tax Statements/Assessments?			
Evidence of payment of property taxes for the most recent fiscal year?			
Any Joint Venture and Joint Interest Audit Reports for the last three years?			
The following tax returns for all prior closed tax years and all open tax years: (i) Federal Income Tax Returns filed by the Company; (ii) State and Municipal Tax Returns filed by the Company; and (iii) Federal, State and Municipal Tax Returns filed by the Company for and on behalf of other taxpayers, including returns filed by the Company as a withholder?			
Book and Tax Basis of Accounts?			
Forecast Net Operating Loss Carry forwards and Utilization?			
Detailed Deferred Income Tax Analysis?			
Estimated Tax Deductions by Type on existing assets by year for next 3-5 years?			
Federal, State, or City Claims and/or Judgments?			
Transfer pricing studies?			
History of any payments of employee withholding taxes owed in connection with work performed in the United States?			
Subtotal			



Accounting and Finance

Do you have...?	Yes	No	N/A
Audited and unaudited financial statements for the last three fiscal years and for the most recent interim period?			
Are your accounting records in compliance with U.S. GAAP or IFRS?			
General Ledger and Sub-ledgers with reconciliation of general ledger to trial balance?			
Internal Monthly Financial Reporting Package?			
Consolidating Monthly Financial Reporting Package Since December?			
Budget and Variance Reporting?			
Capital budgets for the next three fiscal years?			
Summary of Material Estimates deployed in generation of financial statements?			
Financial Projections for the next three fiscal years for Existing Asset Base and Incremental Assets with Assumptions, including assumed rates, utilizations, contract margins, financing terms, etc. for the next three fiscal years?			
List of major customers and revenues received from each for each of the last three years and for the current year?			
Schedule of Current Firm Customer Backlog by Contract?			
Outstanding Contract Bid Proposals?			
Summary of Financial and Operational Commitments for Expenditures?			
Detail of Revenues and Operating Margins by Contract?			



Accounting and Finance

Do you have...?	Yes	No	N/A
Consolidated Income Statements by Expense Type?			
Detailed Analysis of Cost of Sales by Type?			
Detailed Analysis of Foreign Exchange Income Statement Entries, if any?			
Detailed Analysis of Selling, General, and Administrative Costs by Department and by Physical Location?			
Key Financial Ratios?			
Summary of Revenue and Cost Allocations and Methodologies Employed?			
Detailed Analysis of Derivatives/Hedging Strategies and Reconciliation to Financial Statements?			
Description of documentation relating to any off-balance sheet or arrangements or special purpose entities?			
Summary of Related Party Transactions and Impact to Financial Statements?			
Timing of Monthly and Quarterly Accounting Close Process?			
A description of any reason for all recent material changes in accountants, accounting methods, or principles?			
Subtotal			



Insurance

Do you have...?	Yes	No	N/A
Schedule of insurance and indemnity policies and coverages?			
Copies of insurance and indemnity policies?			
Schedule of insurance claims (current and for the last three years)?			
Do you have a Director & Officer Insurance?			
Subtotal			

Debt Instruments

Do you have...?	Yes	No	N/A
All debt and financing agreements?			
Outstanding bank letters of credit?			
All debt correspondence, including compliance reports submitted by the Company, its subsidiaries, or its independent auditors in the last five years?			
Schedule of outstanding debt as of a recent date?			
Scheduled annual debt retirements?			
List of banks or other lenders with which the Company has a financial relationship (and brief description of nature of relationship – lines of credit, etc.)?			
Subtotal			



Personnel / HR

Do you have...?	Yes	No	N/A
Employee List, including date of hire, positions held, responsibility, salaries, bonuses paid, if any, and principal place of employment?			
List of all marine personnel used by the Company, including their professional accreditations and qualifications, work experience, and salaries?			
All employee agreements?			
For those employees terminated within the last two years, copies of all termination documents?			
Organization Chart?			
Employee Headcount by Functional Area?			
Summary of Key Management Personnel?			
Employee Compensation Plans?			
Consulting agreements and summary of services provided by consultants?			
Personnel Files?			
Copies of corporate benefits provided (i.e. pension plan, vacation, benefits, etc.)?			
Copy of any Company Handbook?			
Analysis of any compensation-based implications of the transaction?			
Copies of current year transmittals concerning payment of contract services (i.e., payroll reporting, overtime history by employee)?			



Personnel / HR

Do you have...?	Yes	No	N/A
Any collective bargaining or other labor agreements, evidence of their filing with the applicable labor court, all correspondence with the applicable union and evidence of payment of applicable fees to the union?			
Correspondence, memoranda and notes concerning labor or employment disputes or any pending or threatened work stoppages?			
Immigration permits for foreign employees?			
Documents evidencing payment for the participation of employees in profit sharing for the last five years?			
Subtotal			

Machinery and Equipment

Do you have...?	Yes	No	N/A
A list of all equipment and machinery used by the Company in its business?			
Subtotal			



Asset and Liability Reviews

Do you have...?	Yes	No	N/A
Summary of cash balances and bank reconciliations?			
Detailed aging of receivables, including unbilled receivables?			
Summary of unbilled receivables by project?			
Summary of existing inventories, including designation by location?			
Summary of prepaid expenses and other current assets?			
Detail of Deposits and Other Assets?			
Summary of payments in advance and guarantee deposits by party?			
Documents evidencing Pledged Assets or any other encumbrances on the Assets?			
Summary of Foreign Currency Exposure / Risk Imbedded in Contracts?			
Working Capital Commitments on Contracts?			
Detailed sub-ledger of Property, Machinery, and Equipment?			
Current Vehicle Listing with Descriptions?			
Do you have a detailed fixed asset list that identifies, date of purchase, cost, and location of each asset?			
AFE-based Reporting?			
Detailed analysis of other current and non-current liabilities?			
Aging of Vendor Payables?			
List of Unpaid Payables in dispute and/or anticipated legal action?			



Asset and Liability Reviews

Do you have...?	Yes	No	N/A
Summary of Contingent Obligations?			
Major Suppliers (ranked by aggregate payments made)?			
A description of all planned acquisitions and dispositions by the Company?			
Subtotal			



Property

Do you have...?	Yes	No	N/A
List and description of (i) all real property owned by the Company, (ii) all real property leased or subleased by the Company, and (iii) all other real property on which the Company conducts any operations or on which any of the assets of the Company are located (collectively, the "Facilities")?			
Copies of all deeds, leases and sublease agreements, any other tenancy agreements or arrangements, easements, licenses and any other documents pertaining to title to Facilities (including legal description of real property)?			
Title reports for the Facilities?			
All documents purporting to create liens, mortgages, security agreements or other encumbrances on the Facilities?			
Most recent appraisals and valuation reports for all Facilities?			
Evidence of the availability of all utilities that are necessary for the current use and occupancy of the Facilities as currently operated (including a description of the source of any private utility service, the route of utility lines over any property that is not being conveyed to the Company)?			
Evidence of the current zoning permits of the Facilities?			
Any existing surveys for all real properties?			
Recent Certificates of non-encumbrances for the Facilities?			
Subtotal			



Information and Technology

Do you have...?	Yes	No	N/A
List of all ERP applications, including system (e.g., Solomon)/instances/modules/licenses/platform/maintenance fees, and a copy of the software contract (licensing contract)?			
<i>Telecom Network.</i> Network diagram showing bandwidth, connectivity specifications, network hardware (brand, model, hardware configuration (number of ports, blades, speed), Operating System version, leased/owned)? List of supported connectivity options/software (e.g., VPN, dial-up) and the method of authentication?			
<i>Telephone System.</i> Type/model of telephone system currently used (e.g., Cisco, Panasonic, etc.); manufacturer and model used for handheld phone devices; carrier(s) that provide local and long-distance support; copies of contracts or agreements with local and long-distance carriers?			
<i>Disaster Recovery.</i> Copy or summary of current disaster recovery plan?			
<i>Email.</i> For the Company's primary e-mail system, a list of system/instances/licenses/server platform/maintenance costs, and a copy of the software contract (licensing contract)?			
Do you have a disaster recovery plan, and is it documented?			
Subtotal			



Contracts and Agreements

Do you have...?	Yes	No	N/A
All material third-party agreements, including any agreements with a governmental authority or an entity controlled by a governmental authority?			
All customer agreements?			
List of All Contracts and Agreements requiring consent to the transaction?			
List of Agreements that would be breached or would give another party rights against the Company as a result of a change of control?			
List of All Existing Defaults under any third-party agreements and potential implications to the Company?			
All Agreements with any current or former director, officer or employee regarding termination or severance?			
Indemnification Agreements?			
All confidentiality, non-competition, or any similar agreements with employees and entities?			
Management incentive plans?			
Material Service Agreements with Vendors?			
Contracts where 100% Pass-Through of Costs Not Allowed?			
Derivative and Hedge Documents, if any?			
Operating and Capital Lease Agreements?			
Guarantees and/or commitments made by or on behalf of the Company?			



Contracts and Agreements

Do you have...?	Yes	No	N/A
Material Business Relationship Agreements and any other partnership, joint venture, joint development, corporate alliance, technical cooperation and research & development agreements?			
Finder Fee Agreements?			
Management and Support Agreements?			
Supply Agreements, Performance Guarantee Agreements, Marketing and Advertising Agreements?			
All acquisition agreements (stock purchase agreements, asset purchase agreements)?			
All agreements relating to the divestiture of assets of the Company?			
Documentation of merger with any predecessor corporations?			
Utility agreements, including water rights agreements and electricity agreements?			
Subtotal			



Governmental Regulations and Filings

Do you have...?	Yes	No	N/A
Significant correspondence and reports filed by the Company with regulatory authorities?			
Schedule of all material governmental permits, licenses, concessions, registrations, etc. relating to the Company, together with copies of same?			
All regulatory reporting matters with submission schedule?			
Summary of material administrative actions, investigations or other proceedings relating to labor matters?			
All reports of environmental consultants, environmental audits or assessments or inspections, environmental impact studies or other reports relating to environmental matters with respect to the property currently or formerly owned, operated or leased by the Company and any related plans for management of hazardous materials and wastes?			
Records of any spills, releases or disposal activities or events in, on or about the Facilities and relating to hazardous materials or substances, and actions taken to address them, including reports of any sampling of external or indoor air, soil or groundwater?			
Summary of material administrative actions, investigations or other proceedings relating to the protection of human health or the environment and documents relating to any material noncompliance by, or the liability of, the Company relating to protection of human health or the environment?			
Copies of any notices of noncompliance issued by regulatory bodies?			
Subtotal			



Intellectual Property

Do you have...?	Yes	No	N/A
List and copies of all patents and patent applications, identified by registration or application number, date of filing of application, dates of issuance and expiration of patent (if applicable), the date of the next required action to be taken on each application or registration, and the respective patent agent or agents used?			
List and copies of all current or pending trademark, service mark or copyright registrations, identified by registration or application number, date of filing of application, dates of issuance and expiration of registration (if applicable), the date of the next required action to be taken on each application or registration, and the respective trademark agent or agents used?			
For identification purposes only, list of trade secrets without disclosure of the underlying trade secret?			
List of all license agreements regarding the right to use patents, trademarks, service marks, copyrights or trade secrets, identifying the licensor, and the dates of the license and its expiration?			
Copies of forms of any joint development or consulting services agreements identifying the other party, the patent, copyright, trademark or service mark, or trade secret controlled by the agreement, the dates of the agreement and its expiration?			
List of all unregistered trademarks, service marks, inventions, and copyrights for which no application for registration has been identified in response to another item?			
List of any current or anticipated litigation, interferences, claims or proceedings, including oppositions or cancellations to registrations or applications relating to any of the above referenced patents, trademarks, service marks, or copyrights, or any license, confidentiality agreement, joint development or consulting services agreements?			
List of employees with relevant knowledge of intellectual property?			



Intellectual Property

Do you have...?	Yes	No	N/A
Information relating to competitor's patents and any analysis of competitor's patents?			
Correspondence with intellectual property attorneys?			
Subtotal			



Other Matters

Do you have...?	Yes	No	N/A
A schedule of all accidents, employee injuries and safety-related issues involving vessels, property and equipment of the Company for the last five years?			
Competitor Market Intelligence?			
List of current (or likely future) competitors?			
Existing Performance Bonds?			
Third Party Reports concerning the Company and its operations prepared during the past two years?			
Press releases and press clippings?			
Advertising and marketing literature?			
Presentations to rating agencies or securities analysts during the last five years?			
Any other documents or information that, in your judgment, is significant to the business of the Company?			
Have you considered all potential buyers? Strategic buyers, Private Equity, Financial buyers, ESOPs, Management?			
Do you really understand the working environment with a Private Equity Group, if that is your buyer?			
Subtotal			



Personal Considerations

Do you have...?	Yes	No	N/A
Are you exiting the business for the right reasons?			
Are there no hidden agendas for selling the business?			
Do you have the support of your spouse and family?			
Are you willing to stay involved with the company?			
Will you take a seller note or equity from the buyer?			
Do you have a financial and tax plan in place for the proceeds?			
Subtotal			

Valuations

Do you have...?	Yes	No	N/A
Have you had an independent valuation completed?			
Do you understand the expected market value of your business?			
Are you okay with the expected value?			
Do you understand the valuation process from an outside perspective?			
Have you performed a market analysis of potential purchasers?			
Have you run market comps on other business sales in your industry and area?			
Subtotal			



Valuation Drivers

Do you have...?	Yes	No	N/A
Can the business run without you?			
Do you have a lack of customer concentration (no customer over 30% of annual revenue)?			
Is revenue recurring or predictable?			
Do your managers and key employees have non-compete agreements?			
Are your financial statements in good order?			
Do financials tie to the tax returns?			
Is your financial performance and key ratios in line with industry averages?			
Are your debt levels in line?			
Will the industry business cycle be in an expansion mode when it is time to sell?			
Is there a clear vision for the future growth of the business?			
Are you well positioned versus the competition?			
Do you have a good online presence and reputation?			
Do you need to replace updated old or run-down assets?			
Are the business operations noncomplex and understandable?			
Do you have a clear competitive advantage?			
Do you have a market analysis for all competitors and potential competitors?			
Are policies and processes well documented?			



Valuation Drivers

Do you have...?	Yes	No	N/A
Are there limited discretionary expenses being run through the business?			
Do you have a record of other sales in your industry and area?			
Do you have supplier agreements with change of ownership provisions?			
Subtotal			



Directions

Tally up the subtotals from the previous lists on the following page; then, write the subtotals for each category in the boxes below. This will let you know what areas you need to focus on. We've also included which department is responsible for each section.

To assess your Readiness for Market, focus on the “No” Category only—the things you still need to complete or acquire before positioning your business for sale. Use the following legend to predict how much time you will need to prepare your company.

Legend	
20 items of fewer in “No” category	You are ready to go to market
21 to 29 items in “No” category	Expect 3 months to 6 months to complete
50 + items in “No” category	Expect 6 months to 12 months to complete



Subtotals Combined	Yes	No	N/A
Corporate Structure – Legal			
Issuances of Equity Securities – Legal			
Pending or Threatened Litigation – Legal			
Tax and Audit – Financial			
Accounting and Finance – Financial			
Insurance – Financial			
Debt Instruments – Legal			
Personnel – Financial			
Machinery and Equipment – Financial Planner			
Asset and Liability Reviews – Financial			
Properties – Financial			
Information Technology – Legal			
Contracts and Agreements – Legal			
Governmental Regulations and Filings – Legal			
Intellectual Property – IT			
Other Matters			
Personal Considerations			
Valuation			
Valuation Drivers			
Subtotal			



Guide to Business Valuation

Discover how to maximize business valuation whether or not you intend to sell your company. Understanding how to optimize your business as you create and develop your exit strategy.

Al Danto, Entrepreneurship Professor at Rice University, wrote *An Entrepreneur's Guide to Understanding Business Valuation* to teach financial leaders and business owners how to...

- Achieve maximum value for your business whether or not you intend to sell
- Unlock value within your company
- Position your company to take advantages of opportunities
- Prepare for whatever the future holds



Click the button below to learn more about *An Entrepreneur's Guide to Understanding Business Valuation* and how to improve your company's value.

**LEARN MORE ABOUT AN ENTREPRENEUR'S
GUIDE TO UNDERSTANDING BUSINESS
VALUATION E-BOOK**

