



ACCOUNTING DUE DILIGENCE CHECKLIST

2/10/05 Edition

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DUE DILIGENCE ITEM	<u>Status</u> Open = blank Done = X Not Applicable =NA
1. Cash	
1.1. <i>Listing of all bank accounts, money market accounts and safety deposit boxes. Include bank name, account number, account type and names of persons authorized to sign and/or execute transactions.</i>	
1.2. <i>Monthly bank account reconciliation's for 200?.</i>	
2. Trade and Other Accounts Receivable	
2.1. <i>Aged trade accounts receivable listing by customer as of XXXX 200?, including identification of any receivables from affiliates or other related parties.</i>	
2.2. <i>Summary of customer credit terms.</i>	
2.3. <i>List of any receivables that are discounted/factored.</i>	
2.4. <i>List of any receivables from employees and supporting documents as applicable.</i>	
2.5. <i>Identification of any receivables representing conditional sales or advance billings.</i>	
2.6. <i>List of other non-trade receivables at XXXX 200?.</i>	
2.7. <i>Summary of bad debt reserve policy.</i>	
2.8. <i>Summary of bad debt experience (eg., write-offs) for each of the years 200?, 200?, 200? and 200?.</i>	
2.9. <i>Summary of the allowance for doubtful accounts for each of the years 200?, 200?, 200? and 200?.</i>	



3. Notes Receivable	
3.1. Listing of notes receivable at XXXX 200?, including name, amount, interest rate, due date and collateral (if any). Identification should be made of any notes receivable from employees or other related parties. Provide documents supporting notes.	
4. Investments	
4.1. Listing of all investments in marketable securities at XXXX 200?, including description, date acquired, original cost, carrying value and market value.	
4.2. List of all other investments at XXXX 200?, including description, date acquired, percentage ownership (if applicable), original cost, carrying value and estimated market value.	



5. Inventories	
<i>5.1. Detail listing of inventories (carrying value) at XXXX 200? by major component with identification of any inventory held at outside locations (eg., on consignment, in transit, etc.). For each item of inventory with an aggregate value in excess of \$25,000, indicate most recent date of product sale and estimated net realizable value.</i>	
<i>5.2. Summary of physical inventory policies and procedures.</i>	
<i>5.3. Summary of other inventory policies and procedures (eg., costing, obsolescence, recordkeeping).</i>	
6. Other Assets	
<i>6.1. Schedule of prepaid insurance and other prepaid expenses as of XXXX 200?.</i>	
<i>6.2. Schedule of other assets as of XXXX 200?, including advances, deposits and other items.</i>	
<i>6.3. Schedule of capitalized software, product development costs and other intangible assets as of XXXX 200? along with related amounts of accumulated amortization.</i>	



7. Current Liabilities	
<i>7.1. List of accounts payable at XXXX 200?.</i>	
<i>7.2. List of all companies constituting 10% or more of the total accounts payable balance or that account for 10% or more of annual purchases during the past 3 years. Include name, current amount payable at XXXX 200?, and approximate amount of annual purchases.</i>	
<i>7.3. Description of credit terms with vendors/suppliers, including any unusual discounts, extended terms, commitments, etc.</i>	
<i>7.4. Detail of accrued expenses and other current liabilities at XXXX 200?, 200? and 200?.</i>	
<i>7.5. Copies of property tax bills for the years ended XXXX 200?, 200? and 200?.</i>	
<i>7.6. Analysis of deferred revenue at XXXX 200?, 200? and 200?.</i>	



8. Notes Payable, Debt and Other Liabilities	
8.1. Listing of all notes payable and long term debt at XXXX 200? including payee, description, interest rate, original amount, date of issue, current balance, collateral and payment terms.	
8.2. List of banks with whom the Company maintains a borrowing relationship, including bank name, contact person, location, line of credit, unused balance, letters of credit, commitment fees interest terms and borrowing history.	
8.3. Copies of all loan agreements and related documents.	
8.4. Analysis of monthly short-term borrowings for each of the three years ended XXXX 200?, 200? and 200?.	
9. Commitments and Contingent Liabilities	
9.1. Summary of service guarantees and/or software maintenance obligations, along with copies of the latest contracts.	
9.2. Description of all product warranties/guarantees, along with copies of the latest contracts.	
9.3. Description of any commitments for capital expenditures.	
9.4. Description of the nature, extent and other actions taken related to any sensitive transactions or irregularities during the past 5 years.	
9.5. List of any loans or other obligations for which the Company is guarantor or otherwise contingently liable, together with applicable documents.	
9.6. Listing and copies of documents related to all open contracts not covered elsewhere in this information request (consultants, severance agreements, deferred compensation, etc.).	
9.7. Description of any other contingent liabilities.	



10. Accounting Policies and Procedures	
10.1. Summary of significant accounting policies and procedures along with a copy of the Company's accounting manual (if applicable).	
10.2. Description of any significant changes in accounting policies or procedures during the past 5 years.	
10.3. Listing of any differences between policies and procedures used to prepare interim financial statements and those used to prepare the annual audited financial statements.	
10.4. Copy [sample] of each significant management report used by the Company. Provide information to describe preparer, frequency, user and purpose.	
10.5. Organizational summary of the Company's EDP function.	
10.6. Description of any self-insurance plans.	



11. Other	
11.1. Detail schedule of all legal, audit, accounting and other professional expenses for the years ended XXXX 200?, 200?, 200?, 200? and 200?.	
11.2. Information to supplement financial projections:	
11.2.1. Summary of employee headcount, segmented by functional area (eg., administrative, consulting, marketing, etc.) for 200?, 200? and 200?, as well as projections for 200? to 200?.	
11.2.2. Composition of unallocated salaries from 200? to 200?.	
11.2.3. Composition of allocated salaries from 200? to 200?.	
11.2.4. Forecast of research and development expenses from 200? to 200?.	
11.3. Schedule of rental income for the years ended XXXX 200?, 200? and 200?, along with copies of applicable lease agreements.	
11.4. Description of any non-recurring income or expenses included in the financial statements which individually exceed \$10,000 or collectively exceed \$40,000.	
11.5. Summary of all transactions during 200?, 200? and 200?, with the National Institute for Advancement of Educational Research and Innovation, Inc.	
11.6. Working papers associated with the Company's independent annual audits for the years ended XXXX 200? and 200?.	
NOTE: ITEMS TO BE PROVIDED AS AVAILABLE	
11.7. Audited balance sheet as of XXXX 200?, along with income statement, statement of cash flows and statement of stockholders' equity for the year then ended, including notes to financial statements and independent auditor's report thereon.	
11.8. Working papers associated with the Company's independent annual audit for the year ended XXXX 200?.	
11.9. Interim financial statements (balance sheet, income statement, statement of cash flows and statement of stockholders' equity) for each month subsequent to XXXX 200?.	



12. Tax Matters and Analysis	
NOTE: ITEMS TO BE PROVIDED PRIOR TO ON-SITE VISIT	
12.1. Copies of all federal, state and local returns filed for income, property, excise, and other taxes of the Company during the last 5 years.	
12.2. Analysis of the tax basis of assets and liabilities at XXXX 200?.	
12.3. Estimated fair values of assets and liabilities at XXXX 200?.	
12.4. Copies of any agreements waiving or extending any statutes of limitations.	
ITEMS TO BE PROVIDED DURING INITIAL ON-SITE VISIT	



<p>12.5. Analysis of all income tax accounts for the years ended XXXX 200?, 200?, 200?, 200? and 200?, including current taxes recoverable, current taxes payable, deferred tax assets and liabilities, valuation allowances, contingency reserves and income tax expense.</p>	
<p>12.6. Summary of examinations conducted or being conducted by any tax authority at any time during the past 5 years, along with an indication of the nature and amount of any adjustments.</p>	
<p>12.7. List of tax years currently open to tax authority examination, along with expiration dates.</p>	
<p>12.8. List of all tax carryforwards, including type and expiration existing at XXXX 200?.</p>	
<p>12.9. List of any deferred intercompany gains or other nondeductible write-offs existing at XXXX 200?.</p>	
<p>12.10. Copies of applicable tax determination letters.</p>	
<p>12.11. Tax Status Certificates of Seller and/or any affiliated company of Seller (Federal/State/Local) for current tax year and for past seven (7) years.</p>	
<p>12.12. Audit and Revenue Agents' Report (Federal/State/Local) of Seller and/or any affiliated company of Seller.</p>	
<p>12.13. Tax Agreements waiving Statute of Limitation (Federal/State/Local) of Seller and/or any affiliated company of Seller.</p>	
<p>12.14. Any correspondence, notifications, etc. with respect to any potential tax liability regarding any income or employment taxes (Federal/State/Local) for any past/current tax years for Seller and/or any affiliated company of Seller.</p>	



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13. Employment Matters	
13.1. Corporate organization chart, showing responsibilities.	
13.2. List of current officers and directors of Seller and/or any affiliated company of Seller with terms of office and brief biographical sketch, including any family relationships with other directors, officers or employees.	
13.3. Employment Agreements of officers and directors or other employees of Seller and/or any affiliated company of Seller.	
13.4. List indicating current compensation of all officers, directors and employees (exempt/non-exempt) of Seller and/or any affiliated company of Seller.	
13.5. Copies of other incentive, bonus or variable pay plans.	
13.6. Copies of formal job descriptions.	
13.7. History of payments under incentive compensation plans.	
13.8. Wage structure, job evaluation plan and merit increase program.	
13.9. Copies of any audits or reports by the Wage and Hour Division of the Department of Labor or similar oversight agency.	
13.10. Provide copies of any policies and procedures with respect to the Americans with Disabilities Act compliance.	
13.11. Copies of any policies and procedures with respect to non-discrimination in employment, sexual harassment, and other employee policies.	
13.12. Copies of employment procedure for new employees.	
13.13. Copies of employee manuals.	
13.14. Copies of any collective bargaining agreements.	
13.15. Provide a summary of any grievance or other labor disputes.	
13.16. Copies of any employee satisfaction surveys of Seller or affiliates.	
13.17. Copy of the Company's vacation policy.	
13.18. Description of any subcontracting or other contract labor arrangements.	



MidMarketCapital, Inc.

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14. Employee Benefit Matters	
14.1. Copies of all employee benefit plans, including 401(k), Keough, defined benefit pension plans, welfare benefit plans, cafeteria plans, multi-employer plans, and the like.	
14.2. List the total number of employees and total payroll.	
14.3. Identify the ten (10) highest paid individuals.	
14.4. Provide copies of any filings with the Department of Labor and of any communication from or to the DOL.	
14.5. Provide copies of any summary plan descriptions, material modifications, annual reports or terminal reports for each plan.	
14.6. Provide copies of Board resolutions approving and adopting each plan and any amendments.	
14.7. Provide copies of the annual Forms 5500 since the Company's organization.	
14.8. Provide copies of any election forms utilized with respect to each plan.	
14.9. Provide copies of any valuation reports with respect to each plan.	
14.10. Provide a copy of any determination letters received with respect to any plan.	
14.11. Identify each plan administrator and provide contact information for each administrator.	
14.12. Provide a list and brief description of any reportable event.	
14.13. Provide a description of all insurance programs, including group life, disability, and health and hospitalization, and of any specialized insurance programs for the key employees.	
14.14. Describe any prohibited transaction which may have occurred with respect to any plan.	
14.15. Provide copies of any current submissions to the Internal Revenue Service.	
14.16. Provide copies of any correspondence with, or reports or disclosure documents submitted to the Internal Revenue Service, the Pension Benefit Guaranty Corporations, the Department of Labor, or any other regulatory agency or third party agency having jurisdiction over any of the plans.	



14.17. Provide copies of any stock option plans, incentive stock option plans, non-qualified option agreements or plans, stock appreciation rights, phantom stock, and other equity based compensation arrangements.	
14.18. Provide copies of any policies and procedures with respect to any bonuses.	
14.19. Provide copies of any policies and procedures with respect to any other employment benefits, such as payment of business expenses, parking, club dues, trade association memberships, publications, continuing education, and similar matters.	
15. Transactions with Affiliates	
15.1. List of any and all corporate partnerships or joint ventures by Seller and/or any affiliated company by Seller.	
15.2. Copies of any and all agreements with respect to any corporate partnerships and/or joint venture between Seller (or any affiliated company of Seller) and another entity.	
15.3. List and copies of any and all contracts between Seller, (or any affiliated company of Seller), any corporate partner or joint venture of Seller and the directors, officers, employees, or stockholders of Seller (include same between principle shareholders and other partners or entities).	
15.4. A listing of any and all material acquisitions by Seller and/or affiliated company of Seller for the past five (5) years and any anticipated material acquisitions by Seller and/or any affiliated company of Seller in the future.	
15.5. Copies of documents with respect to any and all transactions with affiliates or interested parties.	
<u>Operational Issues</u>	



16. Real Estate Matters/Environmental	
16.1. List of all real property owned by Seller and/or any affiliated companies.	
16.2. List and copies of any and all title reports and deeds of any real property owned by Seller and/or any affiliated company of Seller.	
16.3. Copies of all mortgage documents of any real property owned by Seller and/or any affiliated company by Seller.	
16.4. List and copies of all title insurance policies for any real property of Seller and/or any affiliated company of Seller.	
16.5. Copies of real property appraisals of all properties owned by Seller and/or any affiliated company of Seller.	
16.6. Listing of all lease obligations of the Company as of XXXX 200?, including description of leased premises, monthly rental, lease term, escalation/other adjustment provisions, renewal/purchase options, sublease provisions and other unusual terms.	
16.7. List and brief description of each threatened or pending inquiry, investigation or proceeding before any governmental or regulatory body, state or federal court against Seller and/or any affiliated company of Seller regarding environmental matters for the past five (5) years.	
16.8. Copies of any request for information by any environmental agency pursuant to the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), also known as "Superfund", or RCRA and any responses to such a request.	
16.9. Copies of any Notification of Hazardous Waste Activity which has been filed with respect to the facility.	
16.10. Copies of all letters of credit, bonds, trust funds or other demonstration of financial responsibility for environmental closure or clean up.	
16.11. Copies of all correspondence with the Environmental Protection Agency, State Department of Environmental Management (or equivalent), other environmental agencies of analogous county or local authorities, including any correspondence related to publicly owned treatment works ("POTW").	
16.12. Copies of documents related to the location, installation or removal of all underground and above-ground storage tanks.	
16.13. Copies of all documents, test results or reports of groundwater, drinking well water and/or soil samples taken for detection of contaminants.	



16.14. Copies of all USGS maps, aerial photograph or site photos of the facility.	
17. Equipment and Personal Property	
17.1. Summary of all land owned, if any, as of XXXX 200?, including description, location, date acquired, original cost, tax basis estimated value and applicable liens.	
17.2. Summary of office furniture and equipment, leasehold improvements and other fixed assets at XXXX 200?, including description, location, date acquired, original cost (book and tax), accumulated depreciation (book and tax), estimated value, replacement cost, estimated remaining life, depreciation method (book and tax) and applicable liens.	
17.3. Copies of all Equipment/Personal Property Leases.	
17.4. Summary of significant property additions and disposals in 200?, 200? and 200?.	
17.5. Documents to evidence ownership of property and equipment with a carrying or estimated value of \$25,000 or greater, including certificates, vehicle titles, etc., as applicable.	
17.6. Copies of any service contracts applicable to property and equipment.	
17.7. Listing of any fixed assets not actively used in the business (i.e., idle property).	
17.8. Summary of accounting policies for capitalization, construction costs, gain/loss recognition, maintenance/repairs and depreciation (book and tax).	
17.9. Copies of any appraisals relating to property owned or leased obtained during the past 3 years.	



18. Insurance/Bonding	
18.1. List and copies of any and all Insurance Policies of Seller and/or any affiliated company of Seller, including the following:	
18.1.1. Liability Insurance.	
18.1.2. Key-Man Insurance.	
18.1.3. Workmen's Compensation Insurance.	
18.1.4. D & O Policies	
18.1.5. Fiduciary Policies	
18.2. Copies of any bonding arrangements, including any financial guarantee bonds.	



19. Intellectual Property Matters	
19.1. List of all registered patents, copyrights, trademarks and servicemarks.	
19.2. List of all applications for patents, servicemarks, trademarks and copyrights.	
19.3. List of any foreign jurisdictions where any intellectual properties are registered.	
19.4. Copies of any license agreements to which the Company is a party whether as licensee or as licensor.	
19.5. Copies of all confidentiality agreements.	
19.6. List of all trade names.	
19.7. Copy of any policies and procedures regarding the documentation and protection of inventions, research and development.	
19.8. Copy of any agreements with employees regarding inventions or developments, such as assignment of inventions form.	
19.9. Copies of any policies and procedures with respect to the protection of trade secrets and other proprietary information.	
19.10. Copies of any documents relating to research and development cooperative efforts, such as joint development agreements.	
19.11. Copies of all documents pursuant to which intellectual properties were acquired.	
19.12. Copies of any documents relating to enforcement of the Company's intellectual property, such as claims of infringement to or from the Company, threats of litigation, and the like.	
19.13. A complete list of all computer programs used by the Company, including any license agreements, maintenance agreements, development histories, and the like.	
19.14. Copies of any escrow agreements relating to intellectual properties.	



<p>20. Material Business Contracts</p>	
<p><i>20.1. Copies of any other significant and material agreements between Seller (or any affiliated company of Seller) and/or any other entity.</i></p>	
<p><i>20.2. All material inter-company agreements or arrangements between Seller and/or any affiliated company of Seller.</i></p>	
<p><i>20.3. Copies of any agreements of guarantee or surety to which Seller and/or any affiliated company of Seller is a party.</i></p>	
<p><i>20.4. Copies of any management, advisory or consulting agreements to which Seller and/or any affiliated company of Seller is party.</i></p>	
<p><i>20.5. Listing of all contracts assigned by any other entity to Seller and/or any affiliated company of Seller.</i></p>	
<p><i>20.6. Copies of agreements with any advertising or public relations agencies.</i></p>	
<p><i>20.7. Copies of any franchise or distribution agreements with any third party regarding the sale or distribution of products.</i></p>	
<p><i>20.8. Copies of any agreements (not previously listed) with suppliers, independent agents, salespeople or others involving the payment of commissions or other consideration or discounts in connection with the sale or distribution of products.</i></p>	
<p><i>20.9. Copies of agreements not to be performed within three months, whether or not entered in the ordinary course of business, except (a) agreements for the sale of merchandise or standard sales order forms entered into in the ordinary course of business and (b) agreements referred to elsewhere herein.</i></p>	
<p><i>20.10. Copies of any agreements or plans entered into, not covered elsewhere in this list, relating to the acquisition of, or merger with, a business, or an interest in any business, whether by acquisition of shares, acquisition of assets or otherwise.</i></p>	
<p><i>20.11. Copies of any contracts restricting the ability of the Company or its employees to compete in any line of business with any person or permitting the Company to continue in any line of business.</i></p>	
<p><i>20.12. Copies of any leases, licenses, agreements or contracts involving the payment of more than \$10,000 in the aggregate <u>currently in the process of negotiation</u>.</i></p>	
<p><i>20.13. Copies of all royalty agreements in effect at any time during the past 5 years.</i></p>	
<p><i>20.14. Listing of all uncompleted consulting contracts as of XXXX 200?, including description, total contract amount, estimated percentage complete, aggregate billings,</i></p>	



<i>recognized revenues in excess of related billings and billings in excess of recognized revenues.</i>	
20.15. Copies of consulting contracts in progress or completed since January 1, 200?.	
21. Licenses and Permits	
21.1. List and copies of any and all professional licenses of Seller and/or any affiliated company of Seller required by any governmental authority or other regulatory authority.	
21.2. List and copies of any and all governmental permits and consents for Seller and/or any affiliated company of Seller (Federal/State/Local) required by any governmental authority.	
21.3. List and copies of any and all licensing Agreements between Seller, its affiliated companies and any other entity or individual.	
22. Claims and Litigation	
22.1. List and brief description of each threatened or pending claim or litigation against Seller and/or any affiliated company of Seller for past five (5) years.	
22.2. List and brief description of any inquiry, investigation or proceeding before any governmental or regulatory body against Seller and/or any affiliated company of Seller for past five (5) years.	
22.3. List and brief description of any outstanding judgments against Seller and/or any affiliated company of Seller.	
22.4. List and brief description of any bankruptcy, criminal or other judicial proceedings pending, expected or completed for past five (5) years against any officers, directors (or persons nominated to such positions) of Seller and/or any affiliated company of Seller.	
22.5. List and brief description of any settlement (civil/criminal) for past five (5) years involving Seller, its affiliated companies or any of such companies' officers, directors or persons nominated to such positions.	
22.6. Summary of any product liability claims during the past 5 years.	
22.7. Copies of all correspondence or proceedings relating to administrative actions with respect to OSHA, EEOC, ERISA or other regulatory agencies.	



23. Customer Results	
23.1. Copies of all Case Studies, Testimonials, Customer Satisfaction Surveys, Customer Files, User Group Documents, Workshop and Seminar Evaluation Forms relating to Seller or any affiliates.	
24. Product & Service Depth	
24.1. Copies of all Product and Service Brochures, Product Documentation, Product Videos, Product Manuals, Customer Lists by Product, Product Development Standards and Procedures Manual, Sample Code, Development Plans of Seller or any affiliate.	
25. Corporate Capabilities	
25.1. Copies of all Business Plans, Staff Credentials, Marketing Plans, Sales Pipeline Analysis, Promotional Materials, Competitive Analysis, Competitive Won/Lost Analysis, Process Documentation, Office Automation and Communication Standards and Procedures Manual.	