GETTING READY FOR DUE DILIGENCE

What investors and lenders check before they put money in, and how to prepare so it goes quickly.

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AT A GLANCE

- **Due diligence** means investors or lenders checking your business before they invest or lend: your numbers, legal setup, contracts, customers and team.
- It usually happens **after a term sheet or loan offer** and can take a few weeks to a few months.
- Being organized **before** it starts speeds it up and builds trust. Surprises slow deals or kill them.

Why it matters

Deals often fall apart in due diligence, usually because of messy books, missing contracts, unclear ownership or problems the founder didn't mention. Investors in our network will run diligence before writing larger checks. The Project Underdogs graduation standard is designed to get you ready. See **UD-05 The Graduation Standard, Explained**.

What they check

Area	What they look at
Financial	Profit and loss statements, balance sheets, bank statements, tax returns, forecasts, debts
Legal	Formation documents, operating agreement or bylaws, cap table, licenses, lawsuits
Ownership of ideas	Trademarks, IP assignments from founders and contractors. See **B-08 Trademarks, Copyrights and Patents in Plain Language**.
Contracts	Customer, supplier, lease, loan and partnership agreements
Customers	Customer list, concentration, retention, reviews, sometimes reference calls
Team	Founder backgrounds, employment agreements, contractors, key people
Operations	How the business runs, key systems, risks
Taxes and compliance	Filings, sales and payroll taxes paid, permits current

Step by step

1. **Build your data room early.** See **R-21 Setting Up a Data Room**.
2. **Clean up your books.** Reconcile every month and fix errors. See **M-14 Monthly Money Checklist**.
3. **Gather legal documents** and fill any gaps, like missing IP assignments.
4. **Update your cap table.** See **R-16 Ownership and Dilution: The Cap Table Explained**.
5. **List known issues honestly**, with how you're fixing them.
6. **Assign one person** to manage requests and track answers.
7. **Respond quickly and completely.**

> KEY POINT
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> **Disclose problems early.** A tax issue, a lawsuit or an unhappy co-founder found by the investor looks much worse than one you explained upfront with a plan to fix it.

> EXAMPLE
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> **Rosa** prepared a data room 6 months before seeking investment. During diligence, the investor asked for 42 items. She had 38 ready on day one. The four missing items were contracts with two long-time clients who had never signed anything. She got them signed within a week. The deal closed in 7 weeks.

Common mistakes

- **Waiting until diligence starts to organize.**
- **Hiding or downplaying problems.**
- **Inconsistent numbers** between your deck, statements and tax returns.
- **Slow responses.**

Your checklist

- ☐ Set up a data room (R-21)
- ☐ Use the due diligence checklist (R-27)
- ☐ Reconcile 12 months of books
- ☐ Fill legal and IP gaps
- ☐ Write a short list of known issues and fixes

Key words, explained

Word	What it means
Due diligence	Checking a business before investing or lending.
Data room	A secure online folder of documents for review.
Customer concentration	How much of your revenue comes from your biggest customers.
Disclosure	Telling investors about issues or risks.

Where to go next

- **R-21 Setting Up a Data Room**
- **R-27 Due Diligence Document Checklist**
- **UD-06 Getting Ready to Meet Investors in Our Network**

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