



KEIRETSU FORUM MID-ATLANTIC REGION

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ENTREPRENEUR GUIDELINES - EXPENSES RELATED TO DUE DILIGENCE AND FUNDING - 2020

Keiretsu Forum Mid-Atlantic (K4-MA) and Keiretsu Forum South-East execute due diligence projects on companies based on the level of interest generated at our Forum Meetings and reported on our Gold Sheets. We execute due diligence by utilizing members, Due Diligence Fellows, K4-MA Team Members, and other volunteers. A successful due diligence package includes not just the report but the Company's Term Sheet and complete Investment Package, a work product valued by a West Coast consultant at \$50,000-\$150,000 to the company raising investment capital. The purpose of this document is to clarify the expenses a company might incur if invited to enter our Due Diligence Process. While not all encompassing, this document describes the costs associated with many of the components of a completed due diligence package;

1. **Background Checks:** Background checks of principals and previous significant investors: The DD Team will, at a later phase of all due diligence projects, order a background check of the company, the founders, senior officers, and significant previous individual investors by utilizing Castle Branch, a company approved by the Angel Capital Association. The report provided by Castle Branch typically costs \$175 per individual depending on the number of databases accessed by Castle Branch. This report is used internally by the DD Team and is not shared as part of the DD report other than to indicate that a successful background check was performed. This expense is part of every due diligence project completed by Keiretsu Forum Mid-Atlantic and is required.
2. **Term Sheet and Investment Package (PPM) review:** Once your Term Sheet has been negotiated and you have a complete investment package (Private Placement Memorandum or PPM) we include a contingent fee noted in the Term Sheet to have the package vetted by one of our legal firms. If you agree to use our standard Term Sheet and package the fee is \$10,000. If you use other documents the fee is \$20,000. This fee is contingent upon you achieving your First Close, defined as that minimum investment amount upon which you have indicated is the smallest amount that you need to build a successful business. This is also the number that allows you to break escrow and receive the funds. The legal fee is due and payable upon achieving the First Close. This expense is part of every due diligence project completed by Keiretsu Forum Mid-Atlantic. This fee is payable only upon achieving the first major plateau of funding, your First Close.
3. **Legal Team IP Review:** Sometimes the issues surrounding Intellectual Property are not clear enough that our team can definitively indicate in the DD Report that they believe that your IP will protect the subsequent investments made by our members and other accredited investors. We typically see this happen as a result of our team discovering a significant amount of prior art (IP) and competition in the IP space that is deemed similar to your filings. First, with your permission, we reach out to **your** IP counsel to attempt to get the necessary answers and/or a Patentability Opinion Letter known as a Freedom to Operate letter. If we cannot gather the needed information from your IP counsel we need to extend our reach. When this happens we enlist the services of the IP division of Baker Hostetler, a renowned IP team that steps in to provide a further review and recommendation. This review will cost \$10,000-\$20,000. The initial fee of \$10,000 is due to Baker Hostetler at the initiation of their IP review. Upon completion of a positive recommendation the final \$10,000 payment would be contingent upon your funding reaching the first close milestone. This expense is based on IP circumstances and is only initiated when the DD Team feels that it is necessary and then only with your permission.

4. On-Site Visit: No Keiretsu Forum due diligence project can be completed without a site visit to the company's headquarters or major facility or facilities. If your company is located near a city where we have a Keiretsu Forum Chapter we will attempt to identify a local member of that chapter to execute the site visit. If this is not possible then one of the members of your DD Team, typically the team leader, will schedule the site visit. You are responsible for the actual expenses incurred by the site visit person or team and an estimate of the expenses will be cleared with you in advance. A typical onsite visit takes place in a half-day time frame so it is almost always possible to execute the visit in one day including travel unless there are multiple sites to visit as part of the project. This expense is part of every due diligence project completed by Keiretsu Forum Mid-Atlantic.
5. Professional Management Assessment: Professional Management Assessment: During the course of our due diligence the management team, selected BOD members, and/or significant investors of the Company will be interviewed as part of the DD project. If the results of this segment of the due diligence leads our team to determine that a deeper dive into the company team will equip you to make better use of the capital you raise, with the company's permission, Courage Advisors, a professional management advisory consultancy firm headquartered in Baltimore, MD will perform a professional assessment of the key players you rely on for strategy execution. The cost of this assessment is typically \$5000 and, like most other services provided by our professional services partners, is contingent upon the Company reaching its First Close in the investment process.
6. DD Fellows Honorarium: At the conclusion of every Due Diligence project we ask the Company to recognize our Due Diligence Fellows who are graduate students and volunteer a great deal of time to help complete your due diligence report with an honorarium. We provide \$100 AmEx cards to each DD Fellow who worked on your team. We usually assign 2-3 DD Fellows to each DD project so your exposure here is usually \$200-300. This expense is part of every due diligence project completed by Keiretsu Forum Mid-Atlantic and is due upon the successful publication of your DD Report.
7. ProSeeder Platform: Once your due diligence report and PPM are completed we turn over control of your folder on the ProSeeder Platform to you. By turning over control of your materials to you your presence on the platform becomes your investment tracking and investor relations & communications tool. You are able to syndicate your investment opportunity to as many other angel groups as you choose and maintaining your presence on the platform provides you with a recognized methodology of managing your investment relations process. The cost to maintain your presence on the ProSeeder Platform is currently \$240/year and will be billed directly by ProSeeder. This expense is part of every completed due diligence project executed by Keiretsu Forum and must be maintained until the Company achieves a liquidity event that satisfies all the terms of the Preferred Term Sheet.
8. Other fees and conditions: While we cannot predict every possible set of circumstances that we encounter in executing a due diligence project that may incur a fee the items above are the ones that are common to the angel investing space when engaging a pro-active group such as Keiretsu Forum. Under no circumstances would we ever incur a fee on your behalf without first notifying you and getting your approval to proceed.

Finally, once your company's due diligence report and investment package is complete and published we place a copy of the entire package in your public folder in our DealRoom portal and open it to syndication to all other Keiretsu Forum Chapters and Regions. You should then contact ProSeeder to take control of your folder and you are then free to distribute the report to other angel groups and individual investors. The report is yours to use as a valuable and necessary tool in raising investment funds. A successful DD Package from Keiretsu Forum means that you will receive funding from some of our members and others who were following your deal.

Most entrepreneurs decide to print copies of the package to have available to hand to a prospective investor as well as producing copies on USB memory sticks which are easier to manage and maintain. Whatever you decide we wish you all the luck in the world in completing your funding round!

Howard Lubert, Area President
Keiretsu Forum Mid-Atlantic