Due Diligence Checklist
Medical Marijuana Retail Dispensary
For Investors or Lenders

Understanding the Deal
☐ If a purchase, what type (asset, stock, or non-profit)
☐ If a loan, what are the terms

Board of Directors and Officers
☐ Summary biographies of principals (those leaving and those staying)-- including employment history, age, service with the organization, years in current position, services provided to clients
☐ Background Check Using Accurint and TLO
☐ Obtain Social Security Numbers
☐ Request Individual Income Tax Returns
☐ Private Investigation

Governance
☐ Review organizational documents and confirm with State
☐ Review state and local regulatory structure, and confirm everything properly in place
☐ Copies of all real estate leases, deeds, mortgages, title policies, surveys, zoning approvals, variances or use permits
☐ All loan agreements, bank financing arrangements, line of credit, or promissory notes to which the Company is a party.
☐ All security agreements, mortgages, indentures, collateral pledges, and similar agreements.
☐ All guaranties to which the Company is a party.
☐ Any installment sale agreements.
☐ Any distribution agreements, sales representative agreements, marketing agreements, and supply agreements.
☐ Any letters of intent, contracts, and closing transcripts from any mergers, acquisitions, or divestitures within last five years.

Obtain Financial Information for Past 3 Years and Current Year
☐ Annual financial statements
☐ Electronic Accounting File
☐ Budgets

Patients
☐ Number of patients
☐ Demographics of patients
  ☐ Age
  ☐ Length of time as a patient
  ☐ Zip codes
  ☐ Type of service provided other than cannabis purchases
  ☐ Revenues by client

Tax Compliance
☐ Request last three years of income tax returns-federal & state
☐ Obtain signed Form 4506 to obtain copy of tax returns from IRS
☐ Review Adjustment for IRC Section 280E
☐ Request last three years of state sales tax returns
☐ Request last three years of payroll tax returns
☐ Any audit and revenue agency reports
☐ Any tax settlement documents for the last three years.

**Balance Sheet Verification**
- Review all items that could be verifiable, and confirm material amounts
  - For cash accounts at banks, request bank statements
  - For inventory, confirm amounts
  - For fixed assets, provide list and observe visually
  - For security deposit, review lease
  - For debts & loans, review all loan documents and amortization schedules
  - For capital accounts, review any evidence of contributions
- Consider unrecorded Liabilities
  - Pending Lawsuits (see below)
  - Obtain legal representation letter from lawyer
  - List of largest vendors

**Income Statement Review**
- Perform analytic review for income
  - Obtain number of patients and average sale per patient
- Obtain copy of lease
- Copies of payroll tax returns

**Financial Information Analysis**
- Review Key Financial Ratios
  - Cost of Goods Sold/Gross Profit Margin
  - Executive Compensation
  - Net Income
  - Current Ratio
  - Debt/Asset Ratio
- Use Bridgewest Proprietary Benchmark DataBase to provide analysis
- How do you price for your product and services?

**Internal Control Procedures**

**Intellectual Property**
- A schedule of domestic and foreign patents and patent applications.
- A schedule of trademark and trade names.
- A schedule of copyrights.
- A description of important technical know-how.
- A description of methods used to protect trade secrets and know-how.
- Any "work for hire" agreements.
A schedule and copies of all consulting agreements, agreements regarding inventions, and licenses or assignments of intellectual property to or from the Company.

- Any patent clearance documents
- A schedule and summary of any claims or threatened claims by or against the Company regarding intellectual property.

**Products & Services**

- What products and services are provided?
- Revenues by products and services for last 3 years
- Sources of product-list of sources of cannabis (don’t need real names); need:
  - History of providing product to dispensary
  - % of total product each individual seller provides
- Growing in-house

**Marketing & Sales**

- Principal avenues for generating new business
- Sales forecasts

**Competition**

- Main Competitors
  - Size
  - Product
  - Geography

**People**

- Organization Chart
- Personnel turnover
  - Data for the last 2 years
  - Benefit Plans
- Significant employee relations problems, past or present

**Systems & Processes**

- Name of point-of-sale system
- Name of accounting software
- Name of CPA/Tax preparer
- What computers do you have?
- What other software do you use?
- Do you allow your clients to pay you with credit cards?

**Legal and Related Matters**

- Pending lawsuits against the company (detail on claimant, claimed damages, brief history, status, anticipated outcome)
- Pending lawsuits initiated by the company (detail on defendant, claimed damages, brief history, status, anticipated outcome)
- Type of insurance coverage
Insurance claims

Articles and Publicity
- Copies of all articles and press releases relating to the Company within the past three years.

Valuation Services
- Prepare a valuation
- Look up rules of thumb
- Review databases
  - MM Sales
  - Liquor Store Sales
  - Tobacco Store Sales