

EB-5 Due Diligence *Inform your client, protect your practice*

According to Dun & Bradstreet reports, "Businesses with fewer than 20 employees have only a 37% chance of surviving four years (of business) and only a 9% chance of surviving 10 years." The Small Business Administration (SBA) claims that more than half of new businesses will disappear in the first five years, its own loan portfolio failure rate has hit double digits, with 11.9% of the SBA's loans going into default. **A study done by Inc. magazine and the National Business Incubator Association (NBIA) revealed that 80 percent of new businesses fail within the first five years.** Given that, how well are *you* researching the investment that you are putting your client's future into? What methodology are you using to value the investment and assess the risks of a particular EB-5 investment compared to other EB-5 projects offered? Are you giving your clients all of the critical, independent information that they will need to make an informed immigration and investment decision?

Here are factors which credit, securities analysts and research professionals at USAAdvisors.org use and may be of help to you and your clients when evaluating potential investments. Most importantly, read and verify all legal documents. Make sure there are no conflicts between the terms of the Private Placement Memorandum, Limited Partnership Agreement and other offering documents. Conduct detailed due diligence on all counterparties, including General Partners, management, lenders and other participants. Fully investigate the pro forma cash flow, capital requirements, job creation projections, timeline and operational plan of the commercial enterprise.

Legal Documents:

- Private Placement Memorandum (PPM)
- Limited Partnership Agreement (LPA)
- Articles of Incorporation
- Bylaws and operating agreements
- Shareholder and investor agreements
- Minutes of Board of Directors and Shareholder meetings
- All documents furnished to investors and directors
- Certificates from all states where the company does business

Financial Documents:

- Audited financial statements since inception
- Income statements, balance sheets, cash flow statements
- Records of all changes in equity position
- Accounting methods and practices
- Company prepared monthly or quarterly statements
- A complete and current business plan
- Accounts receivable aging and accounts payable aging
- Product or service pricing plans and policies
- Revenue and gross margins by product or service
- Extraordinary income or expense details
- Explanation of any material write-downs or write-offs
- A summary of all bad debt experiences
- Details of any outstanding contingent liabilities
- Accountant report on the company's financial condition
- Federal and state income tax returns for the last three years
- 5-7 Year proforma: cash flow, P/L, balance sheet (monthly for 1st year, quarterly thereafter)

Revenue & Expense Considerations:

- Employee benefit plans, pension, profit sharing, stock purchase, stock ownership and stock option plans, or other defined contribution plans whether voluntary or involuntary
- Industry and company pricing policies
- Economic assumptions underlying projections
- Projected capital expenditures, depreciation, and working capital arrangements
- External financing arrangement assumption
- Summary of current federal, state tax positions, including net operating loss carry-forwards
- Discuss general accounting policies (revenue recognition, etc.)
- Schedule of financing history for equity, warrants, and debt (date, investors, dollar investment, percentage ownership, implied valuation and current basis for each round)
- Loans and guarantees to directors, officers or employees (recourse vs. non-recourse, collateral pledged, and other transactions with stockholders, directors)
- Major growth drivers and prospects
- Predictability of business
- Risks attendant to foreign operations

Contracts & Agreements:

- List of Bank and non-Bank lenders
- Joint venture and partnership agreements
- License agreements
- Purchase agreements
- Liens, equipment leases, mortgages or outstanding loans
- Insurance contracts and agreements
- Contracts with suppliers, vendors and customers
- Any additional agreements or contracts relevant to the business of the company
- Frequency of independent audits and reporting to investors

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The Source for Information
on the U.S. EB-5 Visa Program



EB-5 Regional
Center Project analysis,
risk ratings and due diligence
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