INVESTORS / PROCESS DOCUMENTS

Due Diligence Checklist — Seed (Investor-Facing)

The investor's own checklist for what to verify before signing, by risk area.

Educational template — not legal or financial advice. Consult qualified counsel before use. Market terms vary by jurisdiction and by deal.

The investor's own working checklist — what to gather and verify before signing, organized by risk area. This is not the document handed to a founder; it's what an angel or lead investor uses to run their own process. 37 items across 5 risk areas.

1. Founder Risk

WHAT TO CHECK	WHAT TO LOOK FOR	RED FLAG	GREEN FLAG
Founder-market fit	Specific, verifiable prior exposure to this exact buyer or problem	**Recent pivot into the space with no prior domain experience, no clear reason why this problem**	**Describes the buyer's workflow in granular detail unprompted**
Founder references	Ask for two names, then ask each of those for one more — not a hand-picked list only	**Reluctant to provide references beyond a very short curated list**	**References volunteer specific examples of judgment under pressure**
Response under pushback	How the founder handles a direct, uncomfortable question in the room	**Deflects, gets defensive, or answers a different question than the one asked**	**Says "I don't know" plainly rather than improvising**
Co-founder relationship	How founders describe each other's roles and any friction, directly	**Unclear or overlapping roles; founders contradict each other on basic facts**	**Clear, distinct ownership areas; can name each other's blind spots candidly**
Founder's personal runway	How dependent the founder is on this exact raise closing to pay themselves	**Unpaid for an extended period with no personal runway left**	**Enough personal runway to make a rational, not desperate, decision**
Prior startup experience	How the founder describes what went wrong in a prior venture, if any	**Blames external factors entirely, no self-reflection offered**	**Names specific decisions they'd make differently**
Response to hard terms	Does the founder engage substantively with pushback on valuation or terms	**Treats negotiation as adversarial or personal**	**Negotiates firmly but professionally, with specific reasoning**

Full-time status	Confirm founders are actually full-time, not moonlighting elsewhere	**Still formally employed elsewhere, or an active competing side project**	**Can name the specific date they went full-time and what they gave up**

2. Market Risk

WHAT TO CHECK	WHAT TO LOOK FOR	RED FLAG	GREEN FLAG
Market size derivation	Bottom-up math, not a single cited industry report	**TAM from one analyst report, no company-specific derivation**	**Founder walks through the math live, including its weak assumptions**
Timing (“why now”)	A specific, credible reason this is possible now, not three years ago	**Generic answer (“the market is growing”), no specific trigger**	**Concrete, checkable trigger — a regulatory shift, a technology or cost curve**
Customer concentration	Revenue distribution across customers	**Over 40% of revenue from one customer, no clear diversification plan**	**Revenue spread across accounts, no single point of failure**
Actual vs. described buyer	Confirm who actually signs the contract, not just who uses the product	**Founder describes an end-user as the buyer, but budget sits with a different role**	**Founder names the actual budget-holder and their approval process**
Competitive response risk	Could an incumbent credibly copy this in 12–18 months	**Differentiation is a feature, not a structural advantage (data, distribution, network effect)**	**Differentiation compounds over time; not easily fast-followed**
Regulatory / macro sensitivity	Exposure to a plausible sector-specific regulatory or rate shift	**Business model depends on a regulatory status quo never stress-tested**	**Founder has already modeled a plausible adverse scenario**
Sales cycle reality	Actual, verified average cycle across the last several closed deals	**Stated cycle is aspirational, contradicted by deals actually closed**	**Consistent across recent deals and matches what's stated**

3. Product Risk

WHAT TO CHECK	WHAT TO LOOK FOR	RED FLAG	GREEN FLAG
Real usage data	Actual product analytics, not anecdote	**“Engaged users” defined so loosely it includes a single login**	**Specific, meaningful engagement definition backed by real data**
Technical founder involvement	Recent commit history, not just a historical technical claim	**Hasn't meaningfully touched the codebase in months; core work outsourced**	**Still actively building, can speak to recent specific decisions**

Architecture scalability	Has the system been tested near the volume the plan assumes	**Never stress-tested beyond current small customer volume**	**Specific, credible plan for the next order of magnitude**
Build vs. buy / vendor dependency	How much value is proprietary vs. a thin layer over a third-party API	**Entire product is a UI over one API, no differentiation if terms change**	**Proprietary data or logic exists independent of any single vendor**
Security proportionate to data	Does security posture match the sensitivity of data actually collected	**Handling sensitive data (financial, health, PII) with no formal practice**	**Proportionate practices, described specifically, not just asserted**
Roadmap credibility	Does the roadmap match the team's actual current capacity	**Assumes hiring that isn't funded by this round**	**Explicitly sequenced against the hiring this round actually funds**
Customer-reported gaps	Ask customers directly what's missing, not just what they like	**Founder unaware of, or dismissive of, a gap customers raise unprompted**	**Names the same gaps customers raise, before being told**

4. Legal / Cap Table Risk

WHAT TO CHECK	WHAT TO LOOK FOR	RED FLAG	GREEN FLAG
Cap table cleanliness	Does it reconcile to actual signed documents	**Doesn't reconcile; instruments exist that aren't reflected**	**Matches every signed document exactly, no unexplained gap**
IP ownership	Signed assignment from every contributor, including departed ones	**A departed contractor or co-founder never signed an assignment**	**Complete, signed assignment chain with no gaps**
Founder vesting status	Are shares actually subject to vesting, and how much has accelerated	**Fully vested already, or accelerated with no clear justification**	**Standard 4-year vesting with a 1-year cliff, largely unvested**
Prior investor rights	What rights (pro rata, information, protective, board) already exist	**An existing right could structurally block this round from closing**	**Prior rights are standard, no structural blocker**
Litigation / disputes	Any pending, threatened, or informally resolved dispute	**An informally settled dispute never disclosed until asked directly**	**No material history, or fully disclosed and resolved**
Related-party transactions	Contracts or payments between the company and a founder's other interests	**An undisclosed related-party contract on non-arm's-length terms**	**None, or fully disclosed with arm's-length terms**
Entity structure	Confirm the raising entity is the actual operating entity	**Multiple entities with an unclear or undocumented relationship**	**Single clean entity, or a clearly documented standard structure**

Regulatory licensing	Does the business require a license it doesn't yet hold	**Operating in a regulated activity without confirming requirements**	**Requirements identified and satisfied, or on a credible path**

5. Financial Risk

WHAT TO CHECK	WHAT TO LOOK FOR	RED FLAG	GREEN FLAG
Revenue quality	Signed contracts vs. pipeline, verbal commitments, or pilots	**Reported revenue includes unbilled pilots or verbal commitments**	**Reconciles exactly to signed, executed, billed contracts**
Burn rate trend	Is burn accelerating, flat, or improving relative to plan	**Quietly accelerating with no corresponding change in the stated plan**	**Matches or is more conservative than what's presented**
Runway math	Recompute independently from the bank statement, not the deck	**Independently computed runway is meaningfully shorter than stated**	**Independent computation closely matches the stated figure**
Gross margin realism	Does it account for all true cost of delivery, incl. support and infra	**Excludes a real, material cost of delivering the product**	**Fully loaded, founder can walk through what's included**
Payment terms vs. collections	Contracted terms vs. actual cash collection timing	**Contractually annual but paying late or in unreflected installments**	**Actual collections closely match contracted terms**
Liquidation preference stacking	Cumulative preference from prior rounds vs. likely near-term exit scenarios	**Aggressive prior terms (participating, multiple preference) affect this round's economics**	**Prior rounds carry standard, single non-participating preferred**
Tax and compliance standing	Payroll tax, franchise tax, any lapsed corporate filings	**A lapsed filing or unpaid tax the founder wasn't previously aware of**	**Filings current, founder can confirm directly, not just assume**

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