

WORKED EXAMPLE

This document is a completed reference example only. It is not a live instrument.

AI Diligence Readiness Review

Pre-exit preparation variant · Meridian Wire and Cable Co.

Completed example showing how a practitioner would work through this instrument on an engagement. All six dimensions scored with rationale. Use this as a reference before completing a live assessment.

ORGANIZATION	DOCUMENT OWNER	REVIEW DATE	TRANSACTION CONTEXT
Meridian Wire and Cable Co.	Jay Hawkinson, Fractional CDO	May 2026	Pre-exit preparation: 24-month target window, PE sponsor review

About Meridian Wire and Cable Co.: a \$280M mid-market industrial manufacturer producing specialty wire and cable products for industrial, automotive, and infrastructure markets. PE-backed since 2021. Three AI and data systems in active operation. A new CIO joined six months ago and is still orienting. The PE sponsor is targeting a 24-month exit window and has asked the leadership team to assess AI and data posture ahead of pre-marketing preparation.

AI system	Business function	Risk class	Decision criticality	Named owner	Deployment stage
Demand Forecasting AI	Weekly production planning and finished-goods inventory decisions	MEDIUM	Critical	COO	Production
Quality Inspection Model	Batch disposition decisions: accept or hold	HIGH	Critical	VP Manufacturing	Production
Pricing Recommendation Engine	Customer pricing approvals	MEDIUM	Significant	VP Sales	Production

HOW TO USE THIS EXAMPLE

- This example shows a realistic mixed-posture assessment: not a worst-case or best-case scenario. Overall average score of 2.5 places Meridian at the Developing / Investor-ready boundary.
- Read each dimension assessment to understand what score rationale looks like in practice. Note the specificity required: not general observations, but specific evidence cited.
- The soft flag fires on Dimension 3 (score 2: Developing). Note how this is handled in the executive summary even though the overall average is borderline Investor-ready.
- The remediation tracker in Section 4 shows what a realistic pre-exit workplan looks like: specific actions, named owners, and realistic timelines.
- Do not copy this example into a live engagement. Open the blank VTCDO AI Diligence Readiness Review instrument and complete it independently.

1 Diligence readiness scorecard

Dimension scores transferred from Section 2. Overall average calculated. Verdict determined by score range.

Soft flag: Dimension 3 (Decision accountability) scores 2: Developing. This is noted explicitly in the executive summary below even though the overall average reaches the Investor-ready band.

Dimension	Score	Primary readiness gap	Priority action
1 AI system inventory and documentation	3	Pricing engine not formally inventoried: added to scope during this review	Complete formal inventory entry and owner attestation within 30 days
2 Investment and return evidence	2	Return narrative exists but evidence is predominantly proxy-based across all three systems	Develop Operationally Verified evidence for Demand Forecasting AI: highest value and most measurable
3 Decision accountability and reconstructability	2	Pricing engine has no decision rights documentation. Demand forecasting override protocol undocumented	Document decision rights and override protocol for pricing engine. Priority before going to market
4 Governance and control posture	2	AI use policy in draft: not board-approved. EU AI Act exposure not yet assessed	Complete AI use policy board approval. Commission EU AI Act exposure assessment
5 Operational resilience	3	Vendor contracts not reviewed for change of control provisions. Quality inspection has no tested fallback	Initiate vendor contract review. Document and test quality inspection fallback procedure
6 Data and IP ownership	3	Third-party model licenses for demand forecasting AI not reviewed for transferability	Commission legal review of third-party model license transferability before go-to-market
Overall average score	2.5	<i>Sum: $15 \div 6 = 2.5$. Rounds to Developing / Investor-ready boundary.</i>	<i>See executive summary below for verdict and narrative.</i>

OVERALL READINESS VERDICT

Transaction-defensible (avg 3.5 to 4.0)

 **Investor-ready (avg 2.5 to 3.4)** ← Meridian score of 2.5 falls here. See soft flag note below.

Developing (avg 1.5 to 2.4)

Not diligence-ready (avg 1.0 to 1.4)

Executive summary

Meridian's overall diligence readiness score is 2.5, placing the organization at the lower boundary of the Investor-ready band. Evidence is in place and partially documented across most dimensions, but no single dimension has reached Transaction-defensible status. The most significant gap, and the one that requires resolution before going to market, is Dimension 3 (Decision accountability): the pricing recommendation engine has no documented decision rights, no override protocol, and no evidence retention in place. This creates a standalone material risk regardless of the overall average. The primary pre-marketing workplan should prioritize documenting pricing engine decision ownership and completing the EU AI Act exposure assessment, followed by converting the demand forecasting return narrative from proxy-based to Operationally Verified.

2 Dimension assessments: pre-exit evidence review

Each dimension scored 1 to 4 using the criteria in the live instrument. Score rationale cites specific evidence present or absent.

1 AI system inventory and documentation

A complete, current inventory of all AI systems in operation with named owners, risk classifications, deployment status, and governance status.

Evidence required for pre-exit

Current AI system inventory, last updated within 90 days. Named owner for each system. Risk classification documented. Governance status assessed.

Assessed score	Score rationale	Readiness gap	Suite reference
3: Investor-ready	Demand Forecasting AI and Quality Inspection Model are documented with named owners and risk classifications, last reviewed in March 2026. The Pricing Recommendation Engine was not formally in the inventory at the start of this review: it was surfaced during interviews with the VP Sales and added to scope. This gap was resolved during the review, but the absence of a formal inventory process that would have caught this proactively prevents a score of 4. All systems are now documented with owner attestation pending.	Pricing engine was absent from the formal inventory prior to this review. Owner attestation not yet complete. No documented process for detecting newly deployed or shadow AI systems.	AI Governance Accountability Register: Section 1

2 Investment and return evidence

Documented evidence that AI investments have returned measurable value, using evidence that would survive CFO or auditor scrutiny in a transaction.

Evidence required for pre-exit

Business case documentation for each material AI initiative. Outcome metrics tracked and reported.
Evidence confidence level Audited or Operationally Verified.

Assessed score	Score rationale	Readiness gap	Suite reference
2: Developing	Demand Forecasting AI has a documented go-live business case projecting an 8% forecast error reduction and a 2-day reduction in finished-goods inventory days. Current reporting shows 6.2% forecast error reduction: directional but not independently validated against baseline or financial outcomes. Quality Inspection Model reports a 94% correct disposition rate, which is an activity metric, not a financial outcome. The original business case projected a 12% reduction in scrap cost: this has not been tracked. Pricing Recommendation Engine has no documented business case. Evidence confidence across all three systems is Directional at best.	No initiative has Operationally Verified evidence of financial return. Demand forecasting has the strongest directional case but is not yet investor-ready. Quality inspection and pricing engine have no measurable outcome evidence. A potential buyer will ask for financial return documentation and will not accept go-live metrics.	AI Investment Business Case: CFO and PE Sponsor variants

3 Decision accountability and reconstructability

For material AI-influenced decisions, the organization can reconstruct who approved what, using which output, with what override rights, and what the outcome was.

Evidence required for pre-exit

Decision rights documented for all material AI-influenced decisions. Override protocols in place and tested. Evidence retention policy defined and operational.

Assessed score	Score rationale	Readiness gap	Suite reference
2: Developing	Demand Forecasting AI has an informal override process: the COO reviews the weekly production plan and can adjust it, but this process is not documented and overrides are not logged. Quality Inspection Model has a documented hold/release protocol and the VP Manufacturing holds formal disposition authority. The pricing engine has no documented decision rights at all: pricing recommendations are actioned by the sales team without a defined review or approval process. A Test 1 failure: if the pricing engine were audited tomorrow, Meridian could not reconstruct which model version was in use, who approved any specific pricing decision, or what override rights existed.	Pricing engine decision rights are entirely undocumented. Demand forecasting override process exists in practice but is not documented or logged. This dimension scores 2 rather than 1 because quality inspection has documented ownership. However, the pricing engine gap is a standalone material risk: a buyer could argue that AI-influenced pricing decisions affecting revenue were made without documented human accountability.	AI Governance Accountability Register: Section 2

4 Governance and control posture

Core governance controls are in place, documented, and operating: including AI use policy, incident response, board reporting, and regulatory exposure assessment.

Evidence required for pre-exit

AI Governance Accountability Register Section 3 completed. EU AI Act exposure assessed. Control posture rated Governed or Developing with active remediation plan.

Assessed score	Score rationale	Readiness gap	Suite reference
2: Developing	AI use policy exists in draft form: authored by the new CIO, circulated internally, but not yet board-approved. There is no formal AI incident response protocol. Board reporting on AI consists of ad hoc updates during quarterly reviews: no defined format or cadence. EU AI Act exposure has not been formally assessed. The new CIO has identified this as a gap and has committed to completing the exposure assessment in Q1 2027. Six of the twelve governance controls in the Register framework are Not in place. Five are Partial. One (decision rights for quality inspection) is In place.	AI use policy not board-approved. No incident response protocol. No formal board reporting format. EU AI Act exposure unassessed. Article 50 obligations have applied since August 2, 2026, and high-risk obligations apply from December 2, 2027, so this is time-sensitive. Overall control posture is Emerging rather than Developing, but the CIO's active remediation agenda justifies a 2 rather than a 1.	AI Governance Accountability Register: Sections 3 and 4

5 Operational resilience

Fallback procedures exist for critical AI systems, vendor dependencies are documented, and the organization can sustain operations if a key system becomes unavailable during or after transition.

Evidence required for pre-exit

Fallback procedures documented and tested for all Critical-rated systems. Vendor contracts reviewed for change of control. No undisclosed dependencies.

Assessed score	Score rationale	Readiness gap	Suite reference
3: Investor-ready	Demand Forecasting AI has a documented manual forecasting process that was last used in Q1 2025 during a system migration: this constitutes a tested fallback. Quality Inspection Model does not have a documented fallback process; the VP Manufacturing confirmed that a manual visual inspection protocol exists in practice but it has not been formally documented or tested since the AI system went live. Pricing Recommendation Engine fallback is informal. Vendor contracts for the demand forecasting AI and quality inspection model have not been reviewed for change of control clauses. Evidence confidence for this dimension: Operationally Verified for Dimension 1 (demand forecasting) and Directional for the other two. Score 3 reflects a partially resilient posture with two documented or tested procedures out of three.	Quality inspection fallback not documented or tested. Vendor contracts not reviewed for change of control: this is a specific pre-transaction requirement. Pricing engine fallback entirely informal. A new owner needs confidence that critical AI systems can continue operating through a transition without dependency on the selling organization's knowledge or vendor relationships.	AI Governance Accountability Register: Section 1 (Fallback procedure column)

6 Data and IP ownership

Data used in AI systems is owned, licensed, or contracted in a way that transfers cleanly in a transaction. Third-party model dependencies are documented and their IP implications understood.

Evidence required for pre-exit

Data ownership documented for all AI systems. Third-party model dependencies inventoried with license terms. No undisclosed use of proprietary third-party data.

Assessed score	Score rationale	Readiness gap	Suite reference
3: Investor-ready	Training data for the Quality Inspection Model consists entirely of proprietary production data owned by Meridian: clean transfer. Demand Forecasting AI uses internal ERP data plus a third-party demand signal feed from a market data provider; the contract for this feed has not been reviewed for transferability or data portability provisions. Pricing Recommendation Engine uses internal pricing history plus a third-party competitive pricing data feed: same review gap. No third-party foundation model licenses are in use; both AI systems were built on internal or open-source frameworks. Evidence confidence for this dimension: Audited for data ownership, Directional for third-party license transferability due to unreviewed contracts.	Third-party data feed contracts (two systems) not reviewed for transferability or data portability. A buyer conducting IP diligence will flag any data dependency without a confirmed transfer right. This is addressable with a focused legal review but needs to be initiated before go-to-market.	AI Governance Accountability Register: Section 1 (External AI dependencies note)

3 Evidence checklist: documents to prepare for the data room

Status of each evidence item required for a Transaction-defensible or Investor-ready score. Completed during the review engagement.

Dimension	Evidence item	Status	Priority if missing
1 AI system inventory	Current inventory, owner-attested, within 90 days	In hand	HIGH
1 AI system inventory	Risk classification for each system, reviewed within 12 months	In hand	HIGH
1 AI system inventory	Fallback procedure documentation for all Critical systems	Requested	HIGH
2 Investment evidence	Business case documentation for each material AI initiative	Partial	HIGH
2 Investment evidence	Outcome metric tracking with Operationally Verified or Audited confidence	Not available	HIGH
3 Decision accountability	Decision rights register, current within 6 months	Not available	HIGH
3 Decision accountability	Override protocol documentation for all HIGH-risk systems	Partial	HIGH
3 Decision accountability	Evidence retention policy and retention period documentation	Not available	HIGH
4 Governance controls	AI use policy, current and board-approved	Requested	HIGH
4 Governance controls	AI incident response protocol	Not available	MEDIUM
4 Governance controls	EU AI Act exposure assessment	Not available	HIGH
4 Governance controls	Board reporting on AI: most recent presentation	Requested	MEDIUM
5 Operational resilience	AI vendor contracts: change of control and termination provisions reviewed	Not available	HIGH
5 Operational resilience	Vendor dependency summary: third-party AI and model dependencies	In hand	MEDIUM
6 Data and IP ownership	Data provenance documentation for each AI system	In hand	HIGH
6 Data and IP ownership	Third-party model license summary: transferability confirmed	Requested	HIGH

Status summary: 5 In hand · 5 Requested (preparation required) · 6 Not available (must be created before going to market). The six Not available items should be treated as the pre-marketing critical path.

4 Remediation tracker: pre-exit gap closure

Eight gaps identified across six dimensions. Ordered by transaction-criticality, not implementation effort: Dimension 3 decision accountability gap is first and most urgent.

Dimension	Gap description	Remediation action	Owner	Target date	Status
Dim 3	Pricing engine has no documented decision rights, no override protocol, and no evidence retention. Standalone material risk.	Document decision rights register entry for pricing engine. Define named owner, escalation path, override protocol, and evidence retention period.	VP Sales + CIO	2027-03-30	Open
Dim 4	EU AI Act exposure assessment not completed. Article 50 is already in effect, and high-risk obligations apply from December 2, 2027.	Commission EU AI Act exposure assessment for all three systems against HIGH-risk classification criteria.	CIO	2027-04-15 (Q2 2027)	Open
Dim 4	AI use policy in draft: not board-approved. No board-approved policy means governance posture cannot be evidenced.	Complete board approval of AI use policy at next board meeting.	CIO	2027-04-30	In progress
Dim 2	Demand Forecasting AI return narrative is directional: not Operationally Verified. Buyer will challenge the value creation claim.	Establish outcome metric tracking connecting forecast error reduction to inventory carrying cost change. Requires finance sign-off.	COO + CFO	2027-05-31	Open
Dim 5	Vendor contracts not reviewed for change of control provisions. Two AI system vendors require review.	Initiate legal review of vendor contracts for both Demand Forecasting and Quality Inspection vendors.	CIO + Legal	2027-04-30	Open
Dim 6	Third-party data feed contracts not reviewed for transferability. Two data dependencies require review.	Commission legal review of third-party data feed agreements for Demand Forecasting and Pricing Engine.	CIO + Legal	2027-04-30	Open
Dim 3	Demand forecasting override process exists in practice but is not documented or logged.	Document COO override process. Implement decision log for weekly production plan approvals.	COO	2027-05-15	Open
Dim 5	Quality inspection fallback procedure exists informally but is not documented or tested.	Document manual visual inspection fallback protocol. Schedule test exercise.	VP Manufacturing	2027-05-31	Open

GUARDRAIL: TRIGGERED

Dimension 3 (Decision accountability) scores 2: Developing. The pricing engine decision rights gap has been added to this tracker as item 1. It is documented as a disclosed risk item in the executive summary. Meridian should not proceed to market without either remediating this gap (completing the decision rights documentation and override protocol before go-to-market) or securing legal advice on disclosure obligations to a buyer.

This review was conducted by
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May 2026 · Worked example only

Recommended next step
Fractional CDO engagement to own the pre-marketing remediation workplan. Priority focus: pricing engine decision rights (Dim 3), EU AI Act exposure assessment (Dim 4), and vendor contract review (Dim 5/6). Target: Investor-ready posture confirmed within 90 days.

This is a worked example produced for practitioner reference. Meridian Wire and Cable Co. is a composite used throughout the VTCDO suite: the names and details are invented, and the situation reflects problems Jay has seen and solved in manufacturing. Open the blank AI Diligence Readiness Review instrument to complete a live assessment.
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Document note

Version 1.0 | This is a standalone worked example of the VTCDO AI Diligence Readiness Review. It uses the Meridian Wire and Cable Co. composite scenario and shows a completed pre-exit preparation assessment with all six dimensions scored and a remediation tracker populated. It is not a blank instrument. To complete a live assessment, open the VTCDO AI Diligence Readiness Review instrument. The consolidated example showing all five suite instruments applied to Meridian is available in VTCDO Governance Suite Meridian Examples v1. vtcdo.com | Hawksroost LLC