

Due Diligence Information Request

FINANCIAL REVIEW

I. Financial Statements

- A. Most recent detailed monthly balance sheets and the last three audit dates if available
- B. Most recent detailed monthly income statements and the last three audit dates
- C. Consolidating Financial Statements
- D. Projected financial statements as well as significant projection assumptions
- E. List of any changes in accounting policies or change in estimates (within a 15 month period)
- F. Discussion of Financial Results

II. Income Statements

- A. Sales by major clients or product line for last 3 fiscal years.
- B. Gross margin by major client or product line for last 3 fiscal years.
- C. Summary of purchases by major vendor.
- D. Payroll data

III. MIS/Data Processing

- A. Descriptions of major financial and operating systems and related cost of systems maintenance
- B. Description of major hardware configuration and related systems software
- C. Capacity utilization of current system and the cost of any expected upgrades
- D. Proposal for system upgrade

IV. Balance Sheets

As of last full month and at the last three audit dates:

- A. Cash
 - 1. List of all bank accounts
 - 2. Bank reconciliation for all open accounts
 - 3. Description of cash management policies

B. Accounts Receivable

1. Reconciliations of the A/R trial balance to the general ledger
2. A/R aging analysis
3. Detail of accounts receivable write-offs for the past two years
4. Description of credit terms and credit policies and procedures
5. Analysis of sales allowance and discount accounts

C. Inventory

1. Inventory listing as of most recent month X/XX/XX
2. Breakdown of inventory held at the Company, in consignment and at distribution facilities
3. Breakdown of inventory by major category
4. Inventory reserve calculation
5. Description of inventory costing procedures
6. Analysis of previous two years' inventory cycle counts

D. Deferred Costs & Prepaid Expenses

1. Detail and description of prepaid expenses

E. Plant, Property & Equipment

1. Detail listing of fixed assets
2. Reconciliation of the fixed asset ledger to the general ledger
3. Rollforward of fixed assets
4. Existing capital and/or operating leases

F. Accounts Payable

1. Reconciliation and aging of the A/P trial balance to the general ledger
2. Description of payment terms

G. Accrued Liabilities

1. Detail of accruals included within accrued expenses/analysis of significant accruals included within balance

2. Detail of any outstanding letters of credit

H. Financing

1. Detail of revolving credit agreements
2. Detail of guarantees, or other contingent obligations of the Company
3. Bank letters or agreements confirming lines of credit
4. Documents and agreements evidencing other material financing arrangements
5. Copies of correspondence with lenders for the past three years by the Company, or its independent public accountants, regarding compliance with covenants in financing documents

I. Other

1. Management contracts and fee calculation

LEGAL REVIEW

V. Corporate Records

- A. Articles of Incorporation of the Company with all amendments thereto to date
- B. Bylaws of the Company as currently in effect
- C. Minutes of all meetings of the Board of Directors, any Committee, and the Shareholders of the Company
- D. Stock Certificates
- E. Organization chart
- F. Phantom stock agreements and statements
- G. Dividend restrictions - negative loan covenants
- H. All sales and supplier agreements
- I. GLT International articles of incorporation
- J. FTC sales agreement
- K. FSC articles of incorporation
- L. FSC shareholders agreement
- M. FSC minutes of annual shareholders meeting

VI. Governmental and Industry Regulations and Filings

- A. All material governmental permits, licenses, franchises, concessions, etc., of the Company
- B. All federal income tax returns for the past five years
- C. All state/local income, franchise, sales, property, and excise tax returns for the past five years
- D. All tax returns relating to the Foreign Sales Corporation (FSC)
- E. Tax return extension

VII. Material Agreements

- A. Employment agreements
- B. All agreements, indentures or other instruments which contain restrictions with respect to the transfer of assets or payment of dividends or other distributions in respect of the capital stock of the Company
- C. A list of all commitments for material capital expenditures, and copies of any related contracts or documents evidencing the commitment
- D. All loan agreements or all documentation relating to loans or advances to, or investments in, any other person by the Company, or any agreements, contracts or commitments relating to the making of any such loan, advance or investment, including all documents and agreements evidencing loans to employees of the Company by the Company
- E. All management service, consulting, or other similar types of contracts
- F. All insurance policies currently in effect
- G. Copies of title insurance policies, any updated title searches, and any surveys with respect to all owned real estate
- H. Recent appraisals, if any, of any owned real estate or personal property
- I. Business plan or strategic plan prepared by the Company within the past three years
- J. Agreements containing a covenant or a condition relating to a change in control of the Company
- K. Contractual operating agreements

VIII. Environmental Matters

- A. Copies of any environmental audit, of real estate owned or leased by the Company
- B. Copies of any compliance audits of the Company's operations to address issues of compliance with federal, state, and local statutes, regulations, ordinances, or other rules with respect to environmental or other health and safety matters

IX. Intellectual Property

- A. A list of all trademarks, trade names and/or logos owned or used
- B. Copies of all license agreements relating to patents, trademarks, know-how, etc.

X. Litigation

- A. A schedule of all litigation, administrative proceedings, or governmental investigations, audits or inquiries, now pending or threatened, or concluded within the last five years
- B. A schedule of workers' compensation claims for the last three years

XI. Employee Benefits

- A. Summary of Employee Benefit Plans/ Simple 401(k) plan
- B. Forms 5500 for Company pension plan
- C. Previous Profit plan
- D. Description of any bonus plans
- E. SEP-IRA plan
- F. Employee considerations upon closing
- G. Employee Wage increases over 5%, All employee listing/start dates

XII. Miscellaneous

- A. Copies of current sales literature and promotional materials with respect to the Company's products.
- B. Standard warranty, sales and credit terms, and form contracts of sale.

Due Diligence Information Request

1. Corporate Documents & Records

- Certificate/Articles of Incorporation, including all amendments.
- By-laws, including all amendments.
- Minutes of all meetings and written consents of Board of Directors, committees of directors and shareholders (for past 3 years).
- Names of DBAs and places where they are used.
- Business plan: Executive Summary.

2. Affiliates

- List of all states and countries where property is owned or leased or where employees are located, and a brief statement of the nature of the business conducted in each location.
- List of all subsidiaries describing the nature of ownership (same information as #1 above).
- List of all states and countries where parent and its subsidiaries are certified to be business.
- Acquisitions of other companies, assets, personnel, plants, etc.
- Copies of all acquisition agreements concluded, and any pending acquisitions under letters of intent.
- Joint venture or partnership agreements.

3. Shareholder Information

- Shareholders' list as of a recent date.
- Names of the initial shareholders and/or providers of funds (debt and equity) of the company.
- Lists of outstanding options and warrants, including date of grant, exercise price, number of shares subject to option, names and addresses of option holders.
- Contracts or plans concerning outstanding or proposed stock options, warrants or rights.
- All material press releases issued by the company during the last 5 years.

4. Securities Issuances

- Common and preferred stock certificates, warrants, options, debentures and any other outstanding securities.
- Any agreement relating to sales of securities by the company.
- All voting trust, shareholder, or similar agreement covering any of the company's shares. Supply dates of each sale of securities, number or shares issued, and the consideration received for the shares. If no cash consideration was received, indicate the dollar value ascribed to each consideration.
- Distribution of the company's voting stock:
 - a. Classes of stock and number of shares of each outstanding;
 - b. Total number of shareholders, plus list of shareholders;
 - c. Names and residence addresses of ten largest shareholders of each class;
 - d. Relationships of major shareholders to each other or to the officers and directors of the company; and
 - e. Details of any voting trust agreements, shareholders agreements, or other arrangements to vote stock jointly.
 - f. Options to purchase stock or other securities or warrants outstanding other than employees' stock option plan.
 - g. Phantom stock agreements – negative loan covenants
- Specimen copy of all outstanding and authorized equity and debt securities.
- If the company has made loans to or is doing business with any of its officers, directors or ten percent stockholders (or any other of their relatives), and has done so within the last two years or proposes to do so in the future, please explain.

5. Corporate Finance

- List of all bank accounts. Bank reconciliation for all open accounts. Bank line of credit agreements, including any amendments, renewal letters, notices, waivers, etc.
- Other documents and agreements evidencing borrowings (secured or unsecured) by the company, including loan and credit agreements, promissory notes, and other evidences of indebtedness and all guarantees.
- All documents and arrangements evidencing other material financing arrangements, including sale & leaseback arrangements, installment purchases.
- Correspondence with lenders, including all compliance reports submitted by the company or its independent public accountants (for the three most recent fiscal years).
- Description of cash management policies.

6. Financial Information

- Audited, reviewed, or compiled financial statements including historical quarterly financial statements for the five most recent fiscal years.
- Auditors annual management letters and reports on internal controls for the past five most recent fiscal years.
- Year-to-date and previous 3 years annual internal financial statements.
- Chart of Accounts.
- Physical inventory lists, perpetual inventory records and other inventory management reports.
- Financial or operating plans or *projections* for the three most recent fiscal years.
- Management letters or special reports by auditors and any responses thereto for the three most recent fiscal years.
- Forecasted financials for the next 3 years, as well as significant projection assumptions
- Capital budgets for the next 3 years.
- Describe all bank relationships and credit lines including names, addresses, telephone numbers, and contact party for each.
- List of all bank accounts and average balances.
- Aging schedules for accounts receivable and accounts payable.
- Schedule of notes receivable with terms.
- Critical risks and problems including price cutting by competitors, potentially unfavorable industry-wide trends, design or operating cost overruns, sales projections not achieved, development schedule not met, difficulties or long lead times for procurement of materials, difficulties in obtaining bank line of creditList of debt holders.

7. Accounting Methods

- Revenue recognition accounting method.
- Changes in accounting methods or principles in the past five years.
- Company policy regarding depreciation, depletion, and amortization.
- Which items are capitalized and which expensed? Are there any deferred write-offs?
- Are the company's; methods of accounting similar to the rest of the industry? If not, please describe the differences and the reason for such differences.
- Expense and accrual of expense policy (describe).
- Details and descriptions of deferred costs and prepaid expenses.
- Reconciliation of the A/R trial balance to the general ledger
- A/R aging analysis
- Detail of A/R write-offs for the past three years.

- Description of credit terms and credit policies and procedures
- Analysis of sales allowance and discount accounts
- Inventory listing by JIST titles and by third party products
- Breakdown of inventory held at the Company, in consignment, and at distribution facilities.
- Inventory reserve calculations
- Description of inventory costing procedures
- Analysis of previous three years inventory cycle counts.
- Reconciliation and aging of A/P trial balance to the general ledger
- Description of A/P payment terms
- Details of accrued liabilities with analysis of significant accruals
- Details of revolving credit agreements
- Details of guarantees or other contingent obligations of the company
- Banks letters of agreements confirming lines of credit
- Copies of correspondence with lenders for the past three years by the Company or its independent public accountants regarding compliance with covenants in financing documents.
- Management contracts and fee calculations.

8. Acquisition Candidates

- Potential companies, assets, personnel, plants, etc.

9. Operations

- List of major suppliers showing total and type of purchases from each supplier during the most recent three years.
- List of alternate sources of supply.
- Material contracts in the ordinary course of business (e.g. contracts within the last three years' accounting for a large part of the company's purchases or sales. What would result if the product or products of said supplier or suppliers were no longer readily procurable?)
- Does the company have any long-term contracts with its suppliers?

10. Special Circumstances, Regulations, Filings

- Contracts not in the ordinary course of business (e.g. contracts within the last three years relating to joint acquisitions or dispositions).
- Management contracts and fee calculations
- Form of product warranties.
- Agreements containing a covenant or a condition relating to a change of control of the Company.
- Description of any EPA or other investigation or claim. Copies of any environmental audit of real estate owned or leased by the Company. Copies of any compliance audits of the Company's operations to address issues of compliance with federal, state, or local statutes, regulations, ordinances, or other rules with respect to environmental or other health and safety matters.
- If the company utilizes the services of subcontractors and/or processors of its products or components of sub-assemblies, please describe the work done and the availability of other subcontractors or processors. Does the company have any long-term contracts with such persons?

11. International

- Contracts with foreign distributors, dealers and other resellers.
- Copy of any license, private label, royalty, or agreements.

12. Products / Intellectual Property

- All author contracts and royalty agreements.
- All Certificates of Copyrights
- Business Plan: Product/Service Description and Strategy
- List of principal products in each line of business with short descriptions of each product; provide sales and profits for each product line over the most recent three years.
- Technical specifications.
- List of any patents, trademarks, trade names, brands, copyrights, or service marks.
- Is the company, to any degree, dependent on technology or other expertise?
- Product/Service licenses owned and/or used.

- Copy of any license, private label, royalty, or agreements that affect the proprietary nature of the product.
- Permits for conduct of business, including licenses, franchises, concessions, and distributorship agreements and conditional sales contracts.
- Information pertaining to quality assurance (compliance manuals, internal memoranda, testing reports, etc.).
- Customer complaint files over the most recent three years.
- Schedule of warranty claims over the most recent three years.
- Lists of all trademarks, trade names, and / or logos owner or used.
- Copies of all license agreements relating to trademarks, copyrights, etc.

13. Market

- Consulting or management reports and marketing studies related to broad aspects of the business, operations, or products of the company.
- Industry reports.

14. Competition

- List of principal competitors by product.

15. Sales

- Business Plan: Sales Strategy section.
- Price lists for users and resellers.
- Sales projections and earnings for the next three years; including pro forma income statements and any existing business plans and marketing plans.
- List of the company's largest customers, indicating the nature of the transaction related to broad aspects of the business, operations, or products of the company;
- Dates, sales dollar amounts, over the most recent three years, names, addresses, telephone numbers, and email addresses for these major customers.
- List three year historical (and current) sales history for company's largest customers.
- Sales rep., broker, distribution, marketing and sales agreements to sell or distribute company products and services.
- Sales to major customers for last three fiscal years
- Gross margins to major customers by products for last three fiscal years.

16. Marketing

- Business Plan: Marketing Strategy section.
 - Market analysis.
 - Channel analysis.
 - Competitive analysis.
 - Product plans.
 - Copies of all current product catalogs.
 - "Trend" information on units, sales, leads, and products
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- Marketing plans including advertising, direct mail, internet, marketing objectives, marketing strategy, opportunities, pricing, promotions, public relations, publicity, sales tactics, service warranty.
 - Samples of marketing and sales literature, brochures, ad reports, press releases, direct mail pieces.
 - Press clippings — newspaper or magazine articles, etc.
 - Analysts or industry reports.

17. Third Party Alliances

- Alliance agreements, letters of understanding, contracts.
- Samples of marketing and sales literature used between both parties.

18. Employees

- Business Plan: Management Team section.
- Organizational Chart.
- Number of employees, broken out by division and department, and a management organization chart.
- Employee Census Chart
 - a. Age
 - b. Education
 - c. Title and function; responsibilities
 - d. Length of service with company
 - e. Posts held and functions performed for the company prior to present post
 - f. Compensation — past three years
 - g. Past business associations and posts held
 - h. Special distinctions
 - i. Other directorates or present business affiliations

- Forms of employment agreements and employee confidentiality agreements.
- Payroll data.
- Description of any bonus plans.
- List of all increases over 5%.
- Employee benefit, pension, profit sharing, 401(k), compensation and other plans..
- Collective bargaining agreements or other material labor contracts.
- Description of commissions paid to managers, agents or other employees.
- Description of any significant labor problems or union activities the company has experienced, including any collective bargaining agreements.
- Any threats from employees to file suits, complaints or grievances.
- Schedule of employee loans and term.

19. Stock and Incentive Plans

- Copies of all deferred compensation plans.
- Copies of all stock option plans.
- Copies of or describe any bonus and profit sharing plans.
- Copies of summary plan description for all welfare plans.
- Copies of or describe any other employee fringe benefits.
- Copies of any pension plan including most recent actuarial report.

20. Personnel Issues

- Copies of personnel policy manuals and employee handbooks_
- General description of labor relations, past strikes, handling of grievances, etc.
- Has the company experienced any difficulties in obtaining qualified personnel?
- Has the company had any problems with respect to personnel turnover?

21. Officers and Directors

- List of Board of Directors.

- Management employment agreements, if any.
- Schedule of all compensation paid in the past three years to officers, directors, and key employees, separately showing salary, bonuses, and non-cash compensation (e.g. use of cars, property, stock options, etc.).
- Bonus plans, retirement plans, pension plans, deferred compensation plans, profit sharing and management incentive agreements.
- Has any officer, director, or major shareholder ever:
 - a. had any difficulties of any nature with the Securities and Exchange Commission (SEC), and the National Association of Securities Dealers (NASD), or any state securities commission or agency;
 - b. been convicted of a felony; or
 - c. been under indictment, investigation, or threatened by the SEC, NASD, a state commission, or a public agency with prosecution for violation of a state or federal statute?
 - d. Has any such person ever been adjudicated as bankrupt? If the answer to any of the questions is in the affirmative, please describe the circumstances in detail.

22. Agreements and Transactions

- Agreements for loans to and any other agreements (including consulting and employment contracts) with officers or directors, whether or not now outstanding
- Description of any transactions between company and any "insider" (i.e., any officer, director or owner of a substantial amount of the company's securities) or any associate of an "insider", or between or involving any two or more such "insiders".

23. Real Estate Owned or Leased, Plant, Property

- List all real estate owned by the company, including without limitation, to the following:
 - a. the improvements on the property;
 - b. the assessed valuation and amount of current real estate taxes;
 - c. any mortgages, including amount, rate of interest, and due date;
 - d. any liens or encumbrances; and
 - e. the estimated present market value.
- Copies of real estate appraisals prepared during the last three years.
- Copies of any certificates of occupancy, zoning compliance letters or other zoning evidence.
- Documents of title, mortgages, deeds of trust, leases and security agreements pertaining to the properties listed above.
- List all real estate leased by the company, including, without limitation, to the following:
 - a. the amount of space;

- b. the rent fixed and contingent;
- c. the term of lease; and
- d. the minimum total gross rental obligations to expiration of all leases in force.
- Copies of real estate leases for real estate listed above.

24. Equipment Owned or Leased

- Fixed asset ledgers or depreciation schedules showing the following (both book and tax):
 - a. The original cost of each individual fixed asset;
 - b. The date of purchase;
 - c. The depreciation method and;
 - d. The current period and accumulated depreciation.
- Copies of equipment appraisals prepared during *the* last three years.
- Schedule of vehicles owned with evidence of title.
- List all equipment leased by the company if aggregate annual rentals exceed \$ _____, or if the company is dependent on *the* equipment.
- If any other property is leased at a sizable aggregate annual rental, furnish details of the lease, including, without limitation, the terms, options to renew and/or purchase, etc.
- Copies of equipment leases for equipment listed above.
- Copies of all maintenance agreements.

25. Lawyers and Accountants

- Law firm
- Accounting firm
- Bank
- Insurance agent
- Qualified Plan Administrator
- Investment advisor
- Any other pertinent professional advisor

26. Audits

- All attorney's letters sent to auditors for the year end and current interim audits for the three most recent years.
- Files relating to any governmental or administrative audit.

27. Litigation

- Pleadings and other material documents regarding any material litigation, arbitration or investigation to which the company is a party or in which it may become involved.
- information regarding consent decrees, judgments, etc. under which the company has continuing or contingent obligations.
- Any pending or threatened claims and litigation by identifying the parties, the amount involved, the names of the involved, and copies of all complaints, cross-complaints, judgments, etc.
- Any known violation of any law, code, regulation or ordinance.
- Schedule of workers' compensation claims for last three years.

28. Insurance

- Schedule or copies of all material insurance policies of the company covering property, liabilities, and operations.
- Schedule of any other insurance policies in force such as "key man" policies, director indemnification policies or product liability policies, errors and omissions policies, employment practices policies.
- Copies of title insurance policies, updated title searches and any surveys with respect to all owned real estate.
- Recent appraisals of any owner real estate or personal property.

29. Government Regulations and Filings

- Summary of all OSHA inquiries, if any.
- Summary of all EPA, EEOC, NLRB, ERISA, etc. filing, if any.
- Copy of federal, state and local income tax returns for the last five fiscal years and their status. Have all returns been filed? All taxes been paid? Any audits by taxing authorities?
- All state and local income, franchise, sales, excise tax returns for last five years.
- Status of compliance with federal, state, and local regulations (e.g. environmental protection, price controls, product allocations).
- Status of federal and state tax examinations. Date of last examination. Any open questions?

- Copies of Form 5500 for all qualified plans for the last five fiscal years.
- Copies of property tax returns with respect to all real and personal property owned for the last three years.
- Copies of all licenses, permits or other authorization to do business issued to the company by any governmental agency.

30. Miscellaneous

- Please include any information not previously disclosed in your answers that an investor would use in making a decision as to whether he or she should invest in the company.