

DUE DILIGENCE REPORT

TO: Mr. Buyer
FROM: Counsel
RE: Grey Ridge Manufacturing, Inc.
Date: January 18, 2010

Dear Mr. Buyer,

We have completed our due diligence. The following report outlines issues or concerns that must be addressed prior to the culmination of the proposed purchase of Grey Ridge Manufacturing, Inc.

CERTIFICATE OF INCORPORATION

- Grey Ridge Manufacturing (“GRM”) is a corporation, registered in the State of Delaware. ([REDACTED]), hereinafter “BN”)
- GRM has a total of one thousand (1,000) stocks which it has the authority to issue. Each stock has a \$0.01 par value. All shares of GRM are of one class and are shares of Common Stock. (BN)
- Directors are not personally liable for breach of fiduciary duty – except in the following circumstances:
 - Breach of duty of loyalty to corporation/stockholders;
 - Acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; or
 - Any transaction from which the director derived any improper personal benefit. (BN)
- GRM is required to indemnify its directors and officers from and against any and all of the expenses, liabilities, or other matters referred to in or covered by the Delaware General Corporation Law. (BN)
- Certificate of Incorporation was executed in April 1999. (BN)
- What are the details of the changeover between companies in April 1999? Why was there a change? (BN)
- How were revenues throughout the life of the business? (BN)

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BYLAWS

- Article 11 states that the Board may authorize officers of GRM to be powers of attorney. Do any of the Board members currently have this power? If so, does this need to be revoked? (BN)
- How involved is the Board in GRM, outside of Lee Seller? (BN)

STOCK RECORDS

- Grey Ridge Manufacturing, Inc., is a Delaware corporation, which may affect other contracts such as the employment agreement. Illinois law may not be controlling like we previously assumed. (JAH)
- There are 2,500 outstanding shares of GRM stock. (JAH)
- The above shares have been issued to the following individuals: (JAH)
 - Lee M. Seller, No. 1: 500 Shares
 - Ashley B. Seller, No.2: 500 Shares
 - Martin Langdon Seller Trust, No. 3: 500 Shares
 - “Martin Seller Trust U/T/A Dated March 31, 1997,” No. 4: 200 Shares
 - Lee M. Seller, No. 5: 400 Shares
 - Ashley B. Seller, No. 6: 400 Shares
 - Obviously, we need to find out more about the above-mentioned trusts if the deal moves towards a share-structured deal versus an asset-structured deal.

MINUTES

- 4/15/00
 - Mr. Lee Seller and Mrs. Ashley Seller were the members of the Board at this time. (BN)
 - GRM purchased a building in March 2000 at 4321 Old Furniture Lane with the intent to renovate it for use in manufacturing. (BN)
 - Perfect Woodstock was GRM’s main supplier at this time. (BN)
 - GRM then had the opportunity to lease a building at 1234 Furniture Lane next to Perfect Woodstock. (BN)
 - At this meeting, the Board agreed to stop renovations on old building and enter into seven-year lease with Outstanding Building, Inc., effective May 1, 2000, to

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pay \$6,000 per month because of its excellent location and renovation cost savings. (BN)

▪ 7/18/00

- Board checked into putting old building on the market and had little interest from potential buyers. (BN)
- Board did find a tenant who would lease the building long-term. (BN)
- Directors determined that it was in the best interests of GRM to lease the property for ten years to Unrelated Storage LLC for \$4,500 per month, with an option to renew at then-market rates at the end of the term, rather than allow the building to stand empty until a possible sale. (BN)
 - Is Unrelated Storage LLC still a tenant? Has it been a good tenant? What is the likelihood US will renew its lease? What is the likelihood it will not renew its lease and our client will have to find a new tenant or sell this property? (BN)
 - How likely it is that our client could sell this property in the current real estate market? (BN)
 - How likely is our client to find a new tenant for the property? (BN)
- No minutes available for a six year period. Why is that? (BN)

▪ 8/15/06

- The Board is constituted of three members at this meeting: Mr. Lee Seller, Mrs. Ashley Seller, and Mr. Marshall Daily. (BN)
- The Company's facility lease at 1234 Furniture Lane expired on April 30, 2007. (BN)
- Outstanding Building, Inc., the landlord, proposed to renew the term for an additional four years if:
 - Mr. Seller personally guaranteed the lease; and
 - The new lease would have an annual rent increase of \$6,000 per year (or \$500 per month). (BN)
- Why did Outstanding Building need a personal guarantee on the lease renewal? Did something happen to cause this? (BN)
- Was the rent increase in line with then-market levels? (BN)
- Mr. Seller preferred that lease be renewed for a minimum of six years because of GRM's supply agreement with Perfect Woodstock. The supply agreement with Perfect Woodstock, at this time, extended to 2013. (BN)
- Mr. Seller noted that overhead would increase if GRM were not located next door to Perfect Woodstock . (BN)

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- How much more expensive would it be to ship the wood to a different facility? Would it be more than \$6,000 more per year? (BN)
- At this time, GRM was in an intellectual property dispute with Patented Furniture Products, Inc. (BN)
- 4/24/07
 - The Board agreed to renew the lease with Outstanding Building, Inc., because GRM's current location allows overhead costs to stay low. (BN)
 - Thus, the lease with Outstanding Buildings, Inc., currently requires a personal guarantee from Mr. Seller along with an extra \$500 per month. (BN)
 - This lease is due to end in 2011. (BN)
 - Will Outstanding Buildings want to increase rent again before renewing? Will Outstanding Buildings even want to renew considering GRM has new ownership? (BN)
 - What happens to Mr. Seller's personal guarantee if our client purchases GRM? (BN)
- 12/11/08
 - Mr. Seller, Mrs. Seller, and Mr. Daily are Board members at this time (and through the present). (BN)
 - Mr. Seller discussed GRM's financial projections and business plans for 2009 at length. (BN)
 - Mr. Seller was negotiating with Rustic Scenes, Inc., regarding the possibility of selling the Indoor Division's assets and liabilities at this time. (BN)
 - What happened with the negotiations between GRM and Rustic Scenes? (BN)
 - Why did Mr. Seller want to sell off the Indoor Division at this time? (BN)
 - At this meeting, the IP issue with Patented Furniture Products, Inc., was not yet settled. A settlement involving a license agreement was on the table at this time. (BN)
 - Was this settlement accepted? If so, what does this license entail? (BN)
 - The Board also considered expanding the business into southern Illinois. Mr. Daily met with possible target companies in this area but at this time had not located a company with the business synergies that GRM was seeking. (BN)
 - What type of expansion was GRM contemplating? (BN)
 - What other attempts did GRM make? (BN)

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- What types of synergies was GRM looking for? (BN)
- Was this idea abandoned or is it ongoing? (BN)
- Is this something Mr. Seller is still planning to do after selling GRM? (BN)
- 8/3/09
 - At this point, discussions with Rustic Scenes regarding the Indoor Division transaction were ongoing. [See Letter of Intent between parties, dated 7/17/09]. Rustic Scenes was conducting its due diligence at this time. Rustic Scenes' lender had requested additional documents concerning the transaction. (BN)
 - Is there any particular reason that Rustic Scenes' lender would request additional documents regarding this transaction? Are there issues with GRM's property? (BN)
 - The minutes noted that GRM's property manager was having trouble locating the requested documents. (BN)
 - Does GRM have problems with recordkeeping? How many documents are missing now? (BN)
 - Outside counsel was looking into whether a proposed stock option program could be granted by the end of the current quarter. [See Stock Option Plan below.] (BN)
 - What was the purpose of this stock option program? (BN)
 - Why did this stock option program need to be implemented by the end of the quarter? (BN)
 - What was the issue with employing this stock option program by the end of the quarter? (BN)
 - The settlement between GRM and Patented Furniture was not yet in effect at the time of this meeting. All but one of the parties had signed on at this time, however. (BN)
 - The settlement included a license agreement with Patented Furniture. What did this license agreement involve? (BN)
 - Mr. Daily made a presentation regarding three acquisition targets that might have the business synergies that GRM was seeking. (BN)
 - Board agreed that GRM should not yet enter into any letters of intent or other agreements until the Board discussed the acquisition of one of the targets. (BN)
 - How did this particular project progress? (BN)
 - Is GRM still in contact with any of these companies? (BN)

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VARIOUS CONTRACTS FOUND IN MINUTE BOOK

- Under the “Joint Unanimous Written Consent of The Board of Directors and the Stockholders of Grey Ridge Manufacturing, Inc.,” how might the reserved 100 shares affect this deal? Have those shares been sold? Is there a potential buyer in mind? (JAH)
- Under the “Stockholders Agreement,” there are a number of follow-up questions and potential concerns: (JAH)
 - Could §1.7 exclude Mr. Buyer as a “permitted transferee” under a stock deal with Mr. Seller?
 - Under Article 3 §§3.1-3.5, who may exercise a right of refusal and thwart the deal? Also, have these steps been followed thus far? If not, is the option of a stock deal now completely eliminated?
 - Under §4.1, are there any events unknown to Mr. Buyer that trigger this clause? Or, is the tenth anniversary provision the controlling trigger?
 - §5.3(a) – do we know anything about Senior Partner Extraordinaire, Esq.? Has he or she been contacted? Is GRM presently represented by Company Law Firm?
 - §5.4 – have any the required parties been notified and provided their written consent to the possibility of this deal?
- “Martin Seller Trust” (JAH)
 - How old is Martin Seller? Is the Trust still valid?
 - Under Article 2, has Mr. Seller transferred away the property or assets contemplated by this deal?
 - Can this Trust, if still valid and in effect, be amended under Article 7, Section E?
- “Management Consulting Agreement”
 - It appears that this agreement is effective until April 17, 2011. Does this mean that Mr. Buyer would be required to keep Kelly Juniper on staff as a consultant? (JAH)
 - How will the Assignment clause play out? Did Mr. Seller already give notice to Kelly Juniper? Is Mr. Seller already in breach? (JAH)
- “Rustic Scenes, Inc. Letter”
 - The proposed deal between Rustic Scenes, Inc., and GRM involved a purchase of substantially all of the rights and assets related to GRM’s Indoor Division. (BN)
 - Note that GRM was open to an asset sale less than a year ago. Why has this changed? (BN)
 - What types of liens, etc., are currently on GRM’s assets? (BN)
 - The LOI was not binding, except with regard to the expiration of the LOI, the expenses, involved, and the LOI’s non-binding effect. (BN)
 - Rustic Scenes, Inc., offered \$3,000,000 immediately for the Indoor Division. (BN)
 - Was this deal consummated? (JAH)

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- What non-compete clauses were included in this deal? How do they compare to our deal? (BN)
- Did Mr. Seller sell the “Indoor Business” to Rustic? From earlier negotiations, this detail is very unclear and warrants further conversation. (JAH)
- If the deal did not go through, why did this transaction fail? Who made the decision to end negotiations? (BN)

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