



Due Diligence Checklist

conducted for

Laex Corp

Conducted on

13 Mar 2019 11:57 AM

Prepared by

Mary Kent

Location

1208 New Jersey Ave
Kansas City, KS 66102
United States
(39.1223223640478, -94.64170245952199)

Completed on


13 Mar 2019 01:30 PM

Score

61/68.0 - 89.71%

Failed Responses

This section lists responses that were set as "failed responses" in the template used for this audit

Question	Response	Details
List of all countries where Company is doing business, indicating in which countries the Company is qualified to do business.	Red Flag	There is one country listed that is currently under UN sanction. The country has taken steps to improve international relations of late.
Description of all toxic chemicals used in production and manner of storage and disposition.	Red Flag	A manufacturing plant was opened Q4 of 2018 in the sanctioned country and media there alleges questionable practices of waste disposal to a nearby river. Attached image provided by company representative of their efforts to test the water for contamination.
 <p data-bbox="140 1021 256 1048">Appendix 1</p>		
Description of any significant labor problems or union activities the Company has experienced including any collective bargaining agreements.	Red Flag	Q1 of 2019 already showed employee unrest in the newly opened manufacturing site. There was media coverage.
Information regarding any material litigation to which the Company is a party or in which it may become involved.	Red Flag	Issue still ongoing at new manufacturing site.
Schedule of all the facilities of the Company that discharge waste into any body of water, stream or any sanitation systems.	Red Flag	There was media coverage regarding the alleged dumping of waste to the river and nearby local residents expressed their intention to file complaint. Image attached is from news reports.
 <p data-bbox="140 1852 256 1879">Appendix 3</p>		

Question	Response	Details
Schedule of all permits or approvals obtained from any governmental body responsible for environmental or health regulation.	Red Flag	Permits are complete but there is a likely possibility of permit being revoked because of the alleged improper waste disposal.
Schedule of all occasions in which a liquid or solid waste material or any fuel or other Hazardous Material was accidentally or intentionally spilled or released.	Red Flag	


Due Diligence - 61/68 89.71%

Question	Response	Details
Due Diligence		Score (61/68) 89.71%
Basic Corporate Documents		Score (10/11) 90.91%
Collect and review basic corporate documents also for any Subsidiary		
Articles of Incorporation, including all amendments.	No Issues	
By-laws, including all amendments.	No Issues	
Minutes of all meetings of directors, committees of directors and shareholders, including copies of any written notices (if given) or waivers thereof and any written consent to action without a meeting.	For Review	Doing a quick review of 5 years worth of MOM on paper.
List of all locations where property owned or leased or where employees are located, indicating in which states the Company is qualified to do business.	No Issues	
List of all countries where Company is doing business, indicating in which countries the Company is qualified to do business.	Red Flag	There is one country listed that is currently under UN sanction. The country has taken steps to improve international relations of late.
Samples of common and preferred stock certificates (if any), warrants, options, debentures and any other outstanding securities.	No Issues	
Copies of any voting trust, shareholder or other similar agreement covering any portion of the Company's shares.	No Issues	
Copies of all agreements relating to repurchases, redemptions, exchanges, conversions or similar transactions.	No Issues	
Copies of all agreements containing registration rights or assigning such rights.	No Issues	
Copies of all agreements containing preemptive rights or assigning such rights.	No Issues	

Question	Response	Details
Stock books of the Company.	No Issues	
All quarterly and annual reports and any other communications to the Company's shareholders within the past five years.	For Review	Currently reviewing all the reports and so far no red flags found.
All press releases issued by the Company within the past five years.	No Issues	
List of all subsidiaries.	For Review	
Securities Issuances		Score (4/4) 100.00%
Equity Financings: copies of any stock purchase agreements.	No Issues	
Debt Financings: copies of convertible debt agreements.	No Issues	
Stock option or purchase plans and forms of option or purchase agreements which have been or may be used thereunder.	No Issues	
Any other agreements relating to sales of securities by the Company including any private placement memoranda or other offering circulars.	No Issues	
Shareholder Information		Score (4/4) 100.00%
Records setting forth all issuances or grants of stock, options and warrants by the Company, listing the names of the issues or grantees, the amounts issued or granted, the dates of the issuances or grants, the number of shares presently exercisable (if applicable) and the consideration received (or to be received) by the Company in each case.	No Issues	
Lists of all current shareholders, including addresses and numbers of shares owned.	No Issues	
Numerical listing of stock certificates showing certificate number and date, name of shareholder, number of shares, date of Board approval, and permit and tracing transfers.	No Issues	


Question	Response	Details
Lists of all options proposed to be granted, if any, including names and addresses of proposed option holders and number of options to be held by each.	No Issues	
Material Contracts		Score (7/7) 100.00%
Bankline of credit agreements, including any amendments, renewal letters, notices, waivers, correspondences, etc.	No Issues	
Other agreements evidencing outstanding loans to or guarantees by the Company, including correspondences.	For Review	
All outstanding leases for real and personal property.	No Issues	
Material contracts with suppliers or customers. Please indicate which suppliers are the sole source.	For Review	Two suppliers from the mentioned sanctioned country. Will need to further investigate.
Model sales or manufacturing contracts.	No Issues	
Agreements for loans to and any other agreements (including consulting and employment contracts) with officers, directors or employees, whether or not now outstanding.	For Review	
Schedule of all insurance policies in force covering property of the Company and any other insurance policies such as "key person" policies, director indemnification policies or product liability policies.	No Issues	
Partnership or joint venture agreements.	For Review	A partnership was signed with the sanctioned country's government.
Bonus plans, retirement plans, pension plans, deferred compensation plans, profit sharing and management incentive agreements.	No Issues	
Form of employee confidentiality invention assignment agreement.	No Issues	
Any other material contracts outstanding.	No Issues	


Question	Response	Details
Patent and Trademark		Score (9/9) 100.00%
List of all foreign and domestic patents and patent licenses held by the Company.	No Issues	
List of any trademarks, trade names or service marks.	No Issues	
List of any copyrights.	No Issues	
Copies of all material agreements for licensing of Company technology to third parties.	No Issues	
Copies of all material agreements for licensing of technology from third parties.	No Issues	
Description of existing patents and whether additional patents are necessary.	No Issues	
Any correspondence from third parties regarding potential infringement of intellectual property right of others.	No Issues	
List of proprietary processes controlled by the Company.	No Issues	
Name of the law firm which handles patent and trademark matters for the Company and the contact there.	No Issues	
Manufacturing		Score (4/5) 80.00%
A breakdown by manufacturing site of the products manufactured, personnel employed, number of shifts and capacity, if any.	No Issues	
List of major suppliers showing total and type of purchases from each supplier during the last and current fiscal years, and indicate which are sole sources.	No Issues	
List of contract manufacturers or assemblers, if any, showing total and type of purchases from each contract manufacturer or assembler during the last and current fiscal years.	No Issues	

Question	Response	Details
Material or outside of ordinary course of business contracts with suppliers, manufacturers, etc., if any.	No Issues	
Description of all toxic chemicals used in production and manner of storage and disposition.	Red Flag	A manufacturing plant was opened Q4 of 2018 in the sanctioned country and media there alleges questionable practices of waste disposal to a nearby river. Attached image provided by company representative of their efforts to test the water for contamination.
 <p>Appendix 1</p>		
Description of any environmental investigation or claim.	For Review	Currently reviewing the ongoing investigation of the alleged improper waste disposal.
Operations		Score (4/4) 100.00%
List of third-party developers showing total and type of project for each developer during the last and current fiscal years, contact names and phone numbers, together with forms of agreements entered into with third-party developers.	No Issues	
List of third-party software duplicators and manual publishers showing total and type of services from each duplicator and publisher during the last and current fiscal years.	No Issues	
Form of agreements relating to the sale or lease of material capital equipment.	No Issues	
List of top 20 accounts payable with contact names and phone numbers.	No Issues	
Products and Services		Score (14/14) 100.00%
Copies of all market research or marketing studies conducted in the last three years.	No Issues	

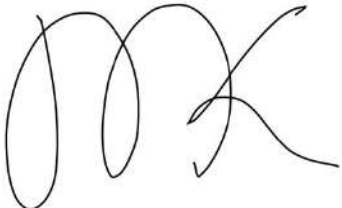
Question	Response	Details
List of the Company's products and services.	No Issues	
List of the Company's competitors.	No Issues	
List of the Company's 20 largest customers or groups in each of the last two fiscal years, indicating the types of products and the amounts of each purchased, and contact name and phone number for each customer.	No Issues	
All material licensing agreements, franchises, and conditional sales contracts to which the Company is a party.	No Issues	
Agreements with distributors, dealers, and sales representatives.	No Issues	
Copies of long-term sales contracts.	No Issues	
Company-financed customer purchase agreements, if any.	No Issues	
Service and support contracts and marketing agreements, if any.	No Issues	
All material agency and advertising contracts to which the Company is a party.	No Issues	
Forms of warranties and guarantees provided to customers.	No Issues	
Copies of all market research or marketing studies.	For Review	
Copies of sales literature and forms, including price lists, catalogs, purchase orders, etc.	No Issues	
List of top 20 accounts receivable with contact names and phone numbers.	No Issues	
Backlog at end of the most recent fiscal year and most recent fiscal quarter.	No Issues	
Tangible Property		
List of real and material personal property owned by the Company.	For Review	

Question	Response	Details
Documents of title, mortgages, deeds of trust and security agreements pertaining to the properties listed.	For Review	
All outstanding leases for real and personal property to which the Company is either a lessor or lessee.	For Review	
List of any security interests in personal property.	For Review	
Documentation of significant acquisitions or dispositions of assets.	For Review	
Employees and Executives		Score (0/1) 0.00%
Description of any significant labor problems or union activities the Company has experienced including any collective bargaining agreements.	Red Flag	Q1 of 2019 already showed employee unrest in the newly opened manufacturing site. There was media coverage.
The number of employees broken down by major types of employees and a management organization chart.	For Review	
Record of employee benefit packages	For Review	
Detailed resume of directors and top management personnel.	For Review	
Founders agreements, management employment agreements, indemnification agreements, and "golden parachute" agreements, if any.	For Review	
Schedule of all compensation paid in the most recent fiscal year to officers, directors and key employees showing separately salary, bonuses and non-cash compensation (e.g., use of cars, property, etc.)	For Review	
Bonus plans, retirement plans, pension plans, deferred compensation plans, profit sharing and management incentive agreements.	For Review	There was a realignment after a recent acquisition. Official memo says bonus plans will change and will be announced by end of the month.
Agreements for loans to and any other agreements (including consulting and employment contracts) with officers or directors, whether or not now outstanding.	For Review	

Question	Response	Details
Description of any transactions between the Company and any insider (i.e., officer, director, or owners of substantial amount of the Company's securities).	For Review	
Litigation and Audits		Score (0/1) 0.00%
All letters which have been sent to auditors in connection with year-end and current interim audits, including "litigation letters."	For Review	
Copies of any auditors' letters to management regarding internal accounting controls.	For Review	Company relies on paper-based audits. Reviewing the files. Attached image.
 <p data-bbox="140 965 256 992">Appendix 2</p>		
Descriptions of (and reasons for) any change in accounting methods in the past three years.	For Review	
Active litigation files, including letters asserting claims, complaints, answers, etc.	For Review	
Any litigation settlement documents.	For Review	
Any decrees, orders or judgments of courts or governmental agencies.	For Review	
Description of any warranty claims which have been made against the Company, any subsidiary, or any partnership or joint venture and the resolution of such claim.	For Review	
Information regarding any material litigation to which the Company is a party or in which it may become involved.	Red Flag	Issue still ongoing at new manufacturing site.

Question	Response	Details
Environmental		Score (0/3) 0.00%
Schedule of Hazardous Materials stored, manufactured or located at any facility of the Company either now or in the past, or that the Company ships or transports (Hazardous Materials means any substance or any material containing a substance that could be considered toxic or hazardous under law, including solvents, petroleum, pesticides, paints, asbestos containing materials, lead based batteries, radioactive materials and PCB containing transformers.)	For Review	
Schedule of chemicals, toxic substances or air contaminants which are regulated present in any facility of the Company.	For Review	
Schedule of any incidents involving the release of a potentially hazardous amount of any carcinogen into, or presence of asbestos in, the workplace.	For Review	
Schedule of all instances in the past in which the Company has corrected unsafe working conditions.	For Review	
Schedule of all the facilities of the Company that discharge waste into any body of water, stream or any sanitation systems.	Red Flag	There was media coverage regarding the alleged dumping of wate to the river and nearby local residents expressed their intention to file complaint. Image attached is from news reports.
 <p data-bbox="140 1592 256 1619">Appendix 3</p>		
Schedule of all permits or approvals obtained from any governmental body responsible for environmental or health regulation.	Red Flag	Permits are complete but there is a likely possibility of permit being revoked because of the alleged improper waste disposal.

Question	Response	Details
Schedule of all occasions in which a liquid or solid waste material or any fuel or other Hazardous Material was accidentally or intentionally spilled or released.	Red Flag	
Any notices of violation or requests for information that have been received or threatened at any time for alleged failure of any facility to comply with applicable air pollution laws or with any air quality permit.	For Review	Reviewing if other manufacturing sites had received formal complaints.
Others		Score (5/5) 100.00%
Copy of any internal or outside studies of the Company or the market for its products (e.g., management consultants).	No Issues	
Summary of all occupational health and safety inquiries (if any).	No Issues	
Summary of all Labor inquiries.	No Issues	
Summary of state, local and foreign income tax status, i.e., have all returns been filed? all taxes been paid? any audits by taxing authorities?	No Issues	
Permits for conduct of business, including licenses, franchises, concessions and distributorship agreements.	No Issues	
Completion		
General Comments	<p>We are now 1 week in of doing due diligence and there's still more to review particularly on the realigning of bonus for executives after a recent acquisition. Reviewing handling of toxic chemicals at particularly at new site after the alleged violation of waste management.</p> <p>Red flag on the newly opened manufacturing site overseas. The company remains accomodating to our requests of access to information but are beginning to show signs of becoming wary on the subject of the overseas site and the alleged improper waste disposal.</p>	

Question		Response	Details
Conducted by: (Name and Signature)	Mary Kent	13 Mar 2019 12:58 PM	

Media



Appendix 1



Appendix 2



Appendix 3