

**Mace Security International, Inc.**

**Supplemental Exhibits to**

**Quarterly Report**

**March 31, 2017**

Exhibit 3.1

Consolidated Financial Statements

**Mace Security International, Inc.**

March 31, 2017 and 2016

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Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands, except share and per share information)

ASSETS	March 31, 2017 <u>(Unaudited)</u>	December 31, 2016 <u></u>
Current assets:		
Cash and cash equivalents	\$ 436	\$ 970
Restricted cash	60	60
Short-term investments	605	1,794
Accounts receivable, less allowance for doubtful accounts of \$114 at both March 31, 2017 and December 31, 2016	1,458	1,655
Inventories	1,961	1,568
Prepaid expenses and other current assets	<u>796</u>	<u>952</u>
Total current assets	5,316	6,999
Property and equipment:		
Buildings and leasehold improvements	228	216
Machinery and equipment	2,587	2,405
Furniture and fixtures	<u>341</u>	<u>342</u>
Total property and equipment	3,156	2,963
Accumulated depreciation and amortization	<u>(2,289)</u>	<u>(2,249)</u>
Total property and equipment, net	867	714
Goodwill	2,654	-
Other intangible assets	685	685
Other assets	<u>1,136</u>	<u>1,184</u>
Total other assets	1,821	1,869
Total assets	<u>\$ 10,658</u>	<u>\$ 9,582</u>

The accompanying notes are an integral part of these consolidated financial statements.

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
	<b>(Unaudited)</b>	
Current liabilities:		
Current portion of long-term debt	\$ 181	\$ -
Accounts payable	283	194
Income taxes payable	60	60
Accrued expenses and other current liabilities	<u>373</u>	<u>518</u>
Total current liabilities	897	772
Long-term debt, net of current portion	819	-
Other liabilities	<u>3</u>	<u>4</u>
Total liabilities	1,719	776
Stockholders' equity:		
Preferred stock, \$.01 par value; authorized 10,000,000 shares, no shares issued and outstanding at March 31, 2017 and December 31, 2016	-	-
Common stock, \$.01 par value; authorized 100,000,000 shares, issued and outstanding shares of 61,881,858 and 60,781,858, at March 31, 2017 and December 31, 2016, respectively	619	608
Additional paid-in capital	102,526	102,098
Accumulated deficit	(94,182)	(93,863)
Accumulated other comprehensive loss	<u>(2)</u>	<u>(15)</u>
	8,961	8,828
Less treasury stock at cost, 90,548 shares	<u>(22)</u>	<u>(22)</u>
Total stockholders' equity	<u>8,939</u>	<u>8,806</u>
Total liabilities and stockholders' equity	<u>\$ 10,658</u>	<u>\$ 9,582</u>

The accompanying notes are an integral part of these consolidated financial statements.

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

(Amounts in thousands)

	Three Months Ended March 31,	
	2017	2016
Net revenue	1,710	2,079
Cost of revenue	<u>1,036</u>	<u>1,262</u>
Gross profit	674	817
Selling, general, and administrative expenses	964	972
Depreciation	<u>41</u>	<u>38</u>
Operating loss	(331)	(193)
Interest expense	(5)	(10)
Interest income	29	37
Loss on sale of short-term investments	<u>(12)</u>	<u>-</u>
Loss from continuing operations before income tax provision	(319)	(166)
Income tax provision	<u>-</u>	<u>-</u>
Loss from continuing operations	(319)	(166)
Income from discontinued operations, net of tax of \$0	<u>-</u>	<u>5</u>
Net loss	<u>(319)</u>	<u>(161)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(Unaudited)

(Amounts in thousands)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
Net loss	\$ (319)	\$ (161)
Other comprehensive income: unrealized gain on short-term investments	<u>13</u>	<u>10</u>
Total comprehensive loss	<u>\$ (306)</u>	<u>\$ (151)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Mace Security International, Inc. and Subsidiaries

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(Amounts in thousands)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash Flows from Operating activities:</b>		
Net loss	\$ (319)	\$ (161)
Income from discontinued operations, net of tax	-	(5)
Loss from continuing operations	<u>(319)</u>	<u>(166)</u>
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	41	38
Stock-based compensation	31	58
Provision for losses on receivables	9	29
Provision for obsolete inventory	4	4
Loss on sale of short-term investments	11	-
Changes in operating assets and liabilities:		
Accounts receivable	518	90
Inventories	(76)	(98)
Prepaid expenses and other assets	177	(16)
Accounts payable	89	124
Accrued expenses and other current liabilities	(145)	(81)
Income taxes payable	-	(2)
Net cash provided by (used in) operating activities – continuing operations	<u>340</u>	<u>(20)</u>
Net cash provided by operating activities – discontinued operations	-	117
Net cash provided by operating activities	<u>340</u>	<u>97</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment	(34)	(188)
Acquisition of business	(3,463)	-
Proceeds from sale of short-term investments	<u>1,190</u>	<u>40</u>
Net cash used in investing activities-continuing operations	<u>(2,307)</u>	<u>(148)</u>
Net cash provided by investing activities-discontinued operations	26	-
Net cash used in investing activities	<u>(2,281)</u>	<u>(148)</u>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from long-term debt	1,000	-
Exercise of stock options	17	-
Issuance of common stock	<u>390</u>	<u>-</u>
Net cash provided by financing activities – continuing operations	<u>1,407</u>	<u>-</u>
Net decrease in cash, cash equivalents and restricted cash	(534)	(51)
Cash, cash equivalents and restricted cash at beginning of period	<u>1,030</u>	<u>506</u>
Cash, cash equivalents and restricted cash at end of period	<u>\$ 496</u>	<u>\$ 455</u>

The accompanying notes are an integral part of these consolidated financial statements.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2017 and 2016

(Amounts in thousands, except share and per share amounts)

**NOTE 1 – DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION**

The accompanying consolidated financial statements include accounts of Mace Security International, Inc. and its wholly owned subsidiaries (collectively, the “Company”). All significant intercompany transactions have been eliminated in consolidation.

The Company currently operates in one business segment, the Security Segment, which sells consumer safety and personal defense products to retailers, distributors, and individual consumers. The Company also supplies less-lethal tactical munitions and weapons systems for law enforcement, correctional institutions and military markets.

These unaudited consolidated financial statements should be read in conjunction with the Company’s December 31, 2016 Consolidated Financial Statements. The results of operations for any interim period are not necessarily indicative of the results to be expected for other interim periods or the full year.

In July 2012, the Company filed Form 15 with the United States Security Exchange (“SEC”) to effectively terminate the Company’s registration and reporting as a public company under SEC rules and regulations.

**NOTE 2 – IMPACT OF NEWLY ISSUED ACCOUNTING STANDARDS**

There were no new accounting pronouncements that had or are expected to have a material impact on the Company’s Consolidated Financial Statements.

**NOTE 3 - SUPPLEMENATARY CASH FLOW INFORMATION**

Interest paid on all indebtedness was \$0 and \$50 for the three months ended March 31, 2017 and 2016, respectively.

Income taxes paid totaled approximately \$0 and \$2 for the three months ended March 31, 2017 and 2016, respectively.

**NOTE 4 – BUSINESS ACQUISITION**

On March 22, 2017, the Company completed the purchase of the business and substantially all related operating assets of Washington Laboratories, LLC, a private label producer of high quality defense spray products. The purchase price for the business and related assets was approximately \$3,418, subject to certain adjustments related principally to customer retention and a working capital adjustment. In addition, the Company assumed certain current operating liabilities of Washington Laboratories, LLC.

The purchase transaction was accounted for under the purchase method of accounting. The final purchase price will be allocated to the assets acquired and liabilities assumed based upon their fair values when appraisals, other studies, and additional information become available.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2017 and 2016

(Amounts in thousands, except share and per share amounts)

The final purchase price will be allocated to the assets acquired and liabilities assumed based upon their fair values when appraisals, other studies and additional information become available. The preliminary allocation of the purchase price and the estimated goodwill are as follows:

**March 22, 2017**

Assets acquired:	
Accounts receivable	\$ 329
Inventory	320
Property and equipment	160
Goodwill	2,654
Liabilities assumed:	
Accounts payable	45
Total purchase price	<u>\$ 3,418</u>

The results of operation of the acquired Washington Laboratories business from the date of acquisition are included in the Company's unaudited consolidated statement of operation. The following unaudited pro forma information presents a summary of the results of operations for the Company including Washington Laboratories as if the acquisition had occurred on January 1, 2016.

	<b><u>Three Months Ended March 31,</u></b>	
	<u>2017</u>	<u>2016</u>
Net sales	\$ 2,195	\$ 2,903
Net income	(182)	107

**NOTE 5 – BUSINESS DIVESTITURES AND DISCONTINUED OPERATIONS**

**Wholesale Security Monitoring Services Business**

On December 17, 2013, the Company completed the sale of its wholesale security monitoring services business, excluding cash, accounts receivable, certain prepaid expenses and most liabilities, to Security Partners, LLC, based in Pennsylvania. The Company received cash proceeds, net of customary transaction fees, of \$4,711 and two notes receivable (\$1,497 (“Note 1”) and \$250 (“Note 2”) totaling \$1,747.

Under the asset purchase agreement, the purchase price for the business was adjusted for revisions to dealer contract values during the second quarter of fiscal 2014. As a result of this adjustment, the Company received additional net cash proceeds of \$315 and the balance of the adjustment to the purchase price was added to Note 1, resulting in a principal balance of \$1,591.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2017 and 2016

(Amounts in thousands, except share and per share amounts)

In October 2014, the Company renegotiated Note 1. The principal amount was reduced \$100 to \$1,491, the interest rate increased to 5.5% and the repayment term extended to 30 monthly periods commencing July 10, 2014.

In April 2015, the Company amended Note 1 reducing the monthly principal repayment amount for the period April to September 2015 by \$10 per month and providing for the repayment of the deferred principal in a lump sum payment due on May 10, 2017.

In January 2016, the Company amended Note 1 providing for the deferral of interest and principal payments from August 11, 2015 to no later than March 10, 2016. Thereafter regular monthly interest and principal payments resume. The amendment further provides for the payment of interest accrued during the deferral period by no later than March 10, 2016 and extends the due date of the note to December 10, 2017. The deferred interest was paid in July 2016.

In July 2016, the Company amended Note 1 providing for interest only payments commencing August 10, 2016 and the resumption of principal and interest payments on January 10, 2017 and the extension of the maturity date of Note 1 to December 10, 2019.

In January 2017, the Company amended Note 1 providing for interest only payments commencing February 10, 2017 and the resumption of principal and interest payments on August 10, 2017.

In January 2016, the Company amended Note 2 providing for the deferral of interest payments from August 18, 2015 to no later than March 17, 2016. Thereafter regular monthly interest payments resume. The amendment provides for the payment of interest accrued during the deferral period by no later than March 17, 2016. Note 2 was fully paid off, including accrued interest, in July 2016.

At March 31, 2017, the current portion of the notes receivable of \$213 is in Prepaid Expenses and Other Current Assets, while the non-current portion of \$777 is in Other Assets on the Consolidated Balance Sheets.

**Electronic Surveillance Equipment Business**

In November 2016, the Company completed the sale of its electronic surveillance equipment business, consisting of inventory and a customer list. The Company received a \$450 note receivable that is due January 20, 2020. On May 2, 2017, the Company amended this note receivable providing for interest only payments commencing February 20, 2017 and the resumption of principal and interest payments on August 20, 2017. At March 31, 2017, the current portion of the note receivable of \$93 is in Prepaid Expenses and Other Current Assets, while the non-current portion of \$357 is in Other Assets on the Consolidated Balance Sheets.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2017 and 2016

(Amounts in thousands, except share and per share amounts)

**Discontinued Operations**

The financial results of the electronic surveillance equipment business and wholesale security monitoring services business included in discontinued operations were as follows:

	<u>Three months ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Net sales	\$ -	\$ 192
Cost of goods sold	-	159
Selling, general and administrative expenses	-	28
Income before income tax provision	-	5
Provision for income tax on operations	-	-
Income from discontinued operations net of tax	\$ -	\$ 5

Discontinued operations are expected to generate cash flow through the last maturity date of the notes receivable in 2020.

**NOTE 6 – ACCUMULATED OTHER COMPREHENSIVE LOSS**

The following table shows the beginning balance, annual activity and ending balance of accumulated other comprehensive loss, all of which pertains to the Company's short-term investments.

Balance at December 31, 2016	\$ (15)
Changes in value (net of tax effect of \$0)	1
Reclassification into earnings (net of tax effect of \$0)	12
Balance at March 31, 2017	<u>\$ (2)</u>

**NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill and other intangible assets consist of:

	<u>March 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Goodwill	\$ 2,654	\$ -	\$ -	\$ -
Non-amortized trademarks	685	-	685	-
	<u>\$ 3,339</u>	<u>\$ -</u>	<u>\$ 685</u>	<u>\$ -</u>

All of the goodwill is expected to be deductible for income tax purposes.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2017 and 2016

(Amounts in thousands, except share and per share amounts)

The Company's goodwill and non-amortized trademarks are not amortized, but are instead subject to an annual impairment test. The most recent evaluation was performed as of December 31, 2016. As a result of this evaluation, it was determined that there was no impairment of the Company's intangible assets as of December 31, 2016.

**NOTE 8 – INVENTORIES**

Inventories consist of the following:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Finished goods	\$ 994	\$ 760
Raw materials	997	808
Total inventories	<u>\$ 1,961</u>	<u>\$ 1,568</u>

**NOTE 9 – LONG-TERM DEBT**

Long-term debt consists of the following:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Promissory note payable to sellers of Washington Laboratories business	\$ 1,000	\$ -
Less: current portion of promissory note payable to sellers of Washington Laboratories business	181	-
Total long-term debt	<u>\$ 819</u>	<u>\$ -</u>

Promissory note payable to sellers of Washington Laboratories business at March 31, 2017 consists of a 5% \$1,000 note payable due March 22, 2022 entered into in conjunction with the acquisition of the Washington Laboratories business in March 2017. The promissory note is collateralized by all of the Company's assets. The Company recognized promissory note payable interest expense of \$1 and \$0 in the three months ended March 31, 2017 and 2016 respectively.

**NOTE 10 – VENDOR FINANCED PROPERTY AND EQUIPMENT**

In January 2016, the Company acquired tooling from a vendor of components. This purchase was financed by the vendor and is to be paid over 30 months. The total purchase financed by the vendor was \$160. Since January 2016, the Company made \$123 of principal payments, and as of March 31, 2017, \$37 was recorded in accrued liabilities.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2017 and 2016

(Amounts in thousands, except share and per share amounts)

**NOTE 11 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consist of the following:

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Accrued employee compensation	\$ 12	\$ 152
Co-operative advertising and other sales allowances	155	217
Accrued commissions	32	21
Amounts due customers	76	40
Accrued non-income based taxes	8	11
Accrued for vendor financed property and equipment	37	41
Other	<u>53</u>	<u>36</u>
 Total accrued expenses and other current liabilities	 \$ <u>373</u>	 \$ <u>518</u>

**NOTE 12 – STOCK-BASED COMPENSATION**

The Company's stock option plans are administered by the Compensation Committee (the "Committee") of the Board of Directors.

In December 1999, the Company's stockholders approved the 1999 Stock Option Plan (the "1999 Plan") providing for the granting of incentive stock options or nonqualified stock options to directors, officers, or employees of the Company. Under the 1999 Plan, 7,500,000 shares of common stock are reserved for issuance. Incentive stock options and nonqualified options have terms which are determined by the Committee with exercise prices not less than the market value of the shares on the date of grant. The options generally expire five to ten years from the date of grant and are exercisable based upon graduated vesting schedules as determined by the Committee. The Plan is terminated and no further options may be awarded under the 1999 plan.

In June 2012, the Company adopted, with shareholder approval, the 2012 Stock Option Plan (the "2012 Plan"). The 2012 Plan provides for the granting of incentive stock options or nonqualified stock options to directors, officers, employees or vendors of the Company. Under the 2012 Plan, 15,000,000 shares of common stock are reserved for issuance. Incentive stock options and nonqualified options have terms which are determined by the Committee, with exercise prices not less than the market value of the shares on the date of grant. The options generally expire five to ten years from the date of grant and are exercisable based upon graduated vesting schedules as determined by the Committee.

As of March 31, 2017, 6,728,262 nonqualified stock options were outstanding under the 1999 and 2012 Plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

(Amounts in thousands, except share and per share amounts)

Activity with respect to these plans is as follows:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Options outstanding at December 31, 2016	7,056,596	\$ 0.50
Options exercised	(100,000)	\$ 0.17
Options expired	(228,334)	\$ 1.61
Options outstanding at March 31, 2017	<u>6,728,262</u>	\$ 0.47
Options exercisable	<u>5,761,004</u>	\$ 0.49
Shares available for granting of options	<u>9,183,739</u>	

The Company recognizes compensation expense for all share-based awards on a straight-line basis over the vesting period of the instruments, based upon the grant date fair value of the stock options issued. Total stock compensation expense was \$31 and \$58 for the three months ended March 31, 2017 and 2016, respectively. No tax benefit was recognized for this compensation expense. At March 31, 2017, total unrecognized stock-based compensation expense is \$175, which has a weighted average period to be recognized of approximately 2.1 years.

The following table provides additional information regarding options outstanding as of March 31, 2017:

	Options Exercisable		Options Outstanding		Options Vested or Expected to Vest	
Option Exercise Price Range	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
\$0.01 to \$0.39	4,247,376	\$ 0.33	5,197,434	\$ 0.34	5,197,434	\$ 0.34
\$0.40 to \$1.00	1,046,961	\$ 0.63	1,064,161	\$ 0.62	1,064,161	\$ 0.62
\$1.01 to \$1.99	451,667	\$ 1.56	451,667	\$ 1.56	451,667	\$ 1.56
\$2.00 to \$3.00	15,000	\$ 2.52	15,000	\$ 2.52	15,000	\$ 2.52
	<u>5,761,004</u>		<u>6,728,262</u>		<u>6,728,262</u>	
			Options Exercisable		Options Outstanding	Options Vested or Expected to Vest
Weighted average years remaining term			1.6		1.9	1.9
Aggregate intrinsic value			\$ 281		\$ 293	\$ 293

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2017 and 2016

(Amounts in thousands, except share and per share amounts)

The following table details the weighted-average grant-date fair values and the assumptions used for estimating the fair values of the Company's options at the dates of grant using a Black-Scholes option pricing model:

	<b>Three months ended March 31, 2016</b>
Weighted-average per share grant-date fair value	\$0.196
Expected term (years)	5
Risk-free interest rate	1.21%
Volatility	53.3%
Dividend yield	0%
Forfeiture rate	0%

**Expected term** - The Company's expected term is based on the period the options are expected to remain outstanding. The Company estimated this amount based on historical experience of similar awards, giving consideration to the contractual terms of the awards, vesting requirements and expectations of future behavior.

**Risk-free interest rate** - The Company uses the risk-free interest rate of a U.S. Treasury Note with a similar term on the date of the grant.

**Volatility** - The Company calculates the volatility of the stock price based on historical value and corresponding volatility of the Company's stock price over the prior five years.

**Dividend yield** - The Company uses a 0% expected dividend yield, as the Company does not have a history of paying dividends and does not anticipate declaring dividends in the near future.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

**NOTE 13 – SUBSEQUENT EVENTS**

The Company evaluated its March 31, 2017 financial statements for subsequent events through May 12, 2017, the date the financial statements were available to be issued. The Company is not aware of any subsequent events, other than as discussed in Note 5, Business Divestitures and Discontinued Operations, which would require recognition or disclosure in the consolidated financial statements.



## ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (“Agreement”) is made and entered into as of March 22, 2017 by and among **Washington Laboratories LLC**, an Ohio limited liability company (“Seller”), **Larry W. Harris** (“Member”), and **Mace Security International, Inc.**, a Delaware corporation (“Buyer”).

### Recitals:

Seller is engaged in a business involving the manufacture, distribution and sale of personal self-defense products (the “Business”).

Member owns a majority of the membership interests of Seller.

Seller desires to sell substantially all of its assets, rights and properties, excluding the Retained Assets (as defined in Section 1.2 hereof), and transfer certain of its liabilities, and Buyer desires to acquire substantially all of Seller’s assets, rights and properties, excluding the Retained Assets, and assume certain of Seller’s liabilities, upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual promises hereinafter set forth, the parties hereto agree as follows:

### SECTION 1 TRANSFER OF ASSETS

**1.1 Transfer of Assets.** Subject to the terms and conditions hereof, at the Closing (as defined in Section 8.1 hereof), Seller shall sell, assign, transfer and deliver to Buyer, and Buyer shall purchase from Seller, all of the assets, properties and rights of Seller of every kind and description (collectively, the “Assets”), but excluding the Retained Assets. The Assets shall include the assets, properties and rights of Seller described below and wherever located:

- (a) All trade and other accounts receivable of Seller (subject to an allowance for uncollectability as agreed upon between Seller and Buyer), as set forth and described on attached Schedule 1.1(a) (collectively, the “Accounts Receivable”).
- (b) All usable, non-obsolete inventories of raw materials, work-in-process, finished goods, replacement and spare parts, operating supplies and packaging materials of Seller, including those items set forth and described on attached Schedule 1.1(b) (collectively, the “Inventory”); provided that “Inventory” shall not include any raw materials or work-in-process that contains Trichloroethylene (TCE).
- (c) All the machinery, equipment, computer hardware and related equipment, furniture, fixtures, leasehold improvements, tooling and other similar property of Seller, including the property set forth and described on attached Schedule 1.1(c), together with any warranties and guaranties with respect to the foregoing (collectively, the “Equipment”).

- (d) All prepaid expenses, retainers, customer deposits received in connection with open purchase orders, all of which are set forth and described on Schedule 1.1(d) (collectively, the "Prepaid Expenses").
- (e) All right, title and interest of Seller in the contracts, leases, purchase orders and customer orders set forth and described on attached Schedule 1.1(e) (collectively, the "Assigned Contracts").
- (f) All right, title and interest of Seller in the permits, licenses, franchises and other authorizations from any federal, state and local governmental agencies and authorities ("Governmental Authority") or third parties relating to the Assets or the operation of the Business, all of which are set forth and described on attached Schedule 1.1(f) (collectively, the "Permits").
- (g) All of the intangibles, intellectual and proprietary property of Seller, including the following: (i) all names, fictional business names, trade names, trade name applications, trademarks, trademark applications, service marks and logos, including the name "Washington Laboratories"; (ii) all patents, patent applications, and inventions that may be patentable; (iii) all copyrights in both published works and unpublished works; (iv) all trade secrets, know-how, technical information, data sheets, production records, working knowledge, unpatented inventions, processes, discoveries, developments, research data, technology, procedures and other know-how; and (v) all computer software, licenses, together with copies of source code (where available), instruction manuals and other data necessary for the effective use thereof (collectively, the "Intellectual Property").
- (h) All books, papers, records, advertising materials, studies, maintenance records, existing customer lists (including the names and addresses of current and past customers of the Business and the names and addresses of prospective customers of the Business, together with copies of all records, compilations, and files relating to such customers), price lists, supplier lists, drawings, designs, quality control specifications, cost analyses, flow sheets, equipment and parts lists, depreciation schedules, process sheets, instruction manuals, employee and accounting records (including sales invoices, proofs of shipment/delivery, customer orders and vendor invoices) and other records of Seller relating to the Assets or the operation of the Business (collectively, the "Business Records").
- (i) All other tangible and intangible property of Seller used in the Business and all goodwill associated with the Business.

**1.2 Retained Assets.** Seller shall retain all right, title and interest in and to the following assets, properties and rights of Seller wherever located and however embodied, and the Assets will not include any of the following existing at or prior to Closing (collectively, "Retained Assets"):

- (a) All cash, cash equivalents, undeposited funds, prepaid rent, marketable securities, bank accounts and other funds of Seller.

- (b) All life insurance policies or the cash surrender value of life insurance policies of Seller.
- (c) All notes receivable of Seller.
- (d) All real property of Seller, including Seller's facility located at 1922 West 26<sup>th</sup> Street NE, Canton, Ohio (the "Facility").
- (e) The organizational and financial documents of Seller, including minute books, member records, tax returns and other similar books and records.
- (f) Those items set forth and described on attached Schedule 1.2(f).

**1.3 Conveyance of Assets.** At the Closing, Seller shall convey to Buyer title to the Assets, free and clear of all liens, claims and encumbrances whatsoever by those conveyance instruments described in Section 8.2 hereof.

## SECTION 2 ASSUMPTION OF CERTAIN LIABILITIES OF SELLER

**2.1 Assumption of Certain Liabilities.** In consideration for the transfer of the Assets by Seller, in addition to the payment of the Purchase Price under Section 3 hereof, Buyer shall purchase and assume only the following liabilities and obligations of Seller relating to the Business (collectively, the "Assumed Liabilities"):

- (a) Those trade accounts and other payables all of which are set forth and described on Schedule 2.1(a), representing amounts due to suppliers and vendors and others incurred by Seller in the ordinary course of business (collectively, the "Trade Accounts Payable").
- (b) The liabilities and obligations of Seller arising in the ordinary course of business under the Assigned Contracts, but only with respect to performance required after the Closing and to the extent that any corresponding benefits therefrom are validly assigned to Buyer, subject to the provisions of Section 2.2(a) hereof.

**2.2 Liabilities Not Assumed.** Except as provided in Section 2.1 hereof, Seller shall retain, discharge and satisfy when due, and Buyer shall not assume, or be responsible or liable with respect to, any liabilities or obligations of Seller, whether or not relating to the Business, whether fixed, contingent or otherwise, and whether known or unknown, including the following (collectively, the "Retained Liabilities"):

- (a) Any liability, claim or obligation in connection with or arising out of the Business as operated by Seller, including any liability or obligation in connection with any defaults or failure of performance by Seller under or in respect of any Assigned Contracts or the ownership, possession, use or sale of Assets prior to the Closing.

- (b) Any liability, claim or obligation in connection with or arising out of the Retained Assets.
- (c) Any liability, claim or obligation with respect to any litigation or legal proceeding pending on the date hereof, or instituted hereafter, in connection with or arising out of the Business as operated by Seller.
- (d) Any liability, claim or obligation in connection with or arising out of any claim or dispute for products manufactured, distributed or sold by Seller or services rendered by Seller, whether or not in connection with the Business, including product warranty and product liability claims, errors and omissions claims, warranty claims, and claims for refunds, returns, personal injury and property damage.
- (e) Any liability, claim or obligation in connection with or arising out of any claims based on harm to human health, safety or the environment or the disposal of toxic or otherwise hazardous wastes or hazardous substances allegedly committed by Seller, whether or not in connection with the Business, including the obligation to pay any and all fines, penalties, liabilities, consequential damages, whether foreseeable or unforeseeable, any other damages, costs and losses, including remedial, removal, response, abatement, clean-up, investigative and monitoring costs, and any other related costs, expenses, losses, damages and reasonable attorneys' fees in connection with or arising out of: (i) any violation by Seller of requirements of any Laws (as defined in Section 4.3 hereof) concerning human health, safety or the environment (including the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended) ("Environmental Laws"); (ii) environmental claims based on acts or omissions of Seller; and (iii) any release into the environment of any hazardous substance generated by Seller from any facility or real property owned or leased by Seller, including the Facility.
- (f) Any liability, claim or obligation of Seller for any Taxes (as defined in Section 4.16 hereof) due and payable prior to or after the Closing.
- (g) Any liability, claim or obligation of Seller in connection with or arising out of:
  - (i) wages, benefits, bonuses or other compensation due to any employee of Seller;
  - (ii) any sponsorship or responsibility for the maintenance of or termination of any Employee Plan (as defined in Section 4.17 hereof) maintained by Seller; or
  - (iii) any other benefits due to or for the benefit of any employee of Seller.

### SECTION 3 PURCHASE PRICE

**3.1 Purchase Price.** In consideration for the sale and transfer of the Assets, Buyer shall pay to Seller (a) \$2,750,000.00 (the "Cash Consideration"), subject to adjustment pursuant to Sections 3.3 and 3.4 hereof, plus (b) 1,000,000 shares of the common stock of Buyer (the "Stock Consideration"), subject to adjustment pursuant to Section 3.5 hereof, which, for purposes of this Agreement, the "Stock Consideration" will include any additional shares issued

pursuant to Section 3.5 hereof, plus (c) the purchase and assumption of the Assumed Liabilities (collectively, the "Purchase Price").

**3.2 Payment/Delivery Terms.** The Purchase Price will be paid as follows:

- (a) At the Closing, Buyer shall pay \$2,028,008.64 of the Cash Consideration (which includes the Initial Adjustment (as defined in Section 3.3(c) hereof) of \$278,008.64) to Seller by wire transfer of immediately available funds to a bank account as designated, in writing, by Seller to Buyer (the "Closing Payment").
- (b) At the Closing, Buyer shall pay the balance of the Cash Consideration of \$1,000,000 to Seller by Buyer's execution and delivery to Seller of a promissory note in the principal amount of \$1,000,000, in the form attached hereto as Exhibit A (the "Promissory Note"). The Promissory Note will provide for 60 equal, monthly installments of principal and interest, and will accrue interest at a rate of 5% per annum. The parties agree that: (i) the principal amount due on the Promissory Note shall be subject to adjustment pursuant to the procedures set forth in Sections 3.3(f) and 3.4(d) hereof; and (ii) the parties shall cooperate in the execution and exchange of Promissory Note amendment(s) to reflect any such adjusted principal amount. The indebtedness evidenced by the Promissory Note will be secured by a security interest in all of the assets of Buyer (including the Assets) pursuant to the terms of a Security Agreement, in the form attached hereto as Exhibit B (the "Security Agreement"); provided, however, if Buyer secures senior financing with a commercial lender (together with any successor senior lender, "Senior Lender"), Seller's right to payments on the Promissory Note and Seller's security interest granted in the Security Agreement shall be subordinated to the interests of Senior Lender as provided in Section 21 of the Promissory Note, and, if requested by Senior Lender, Seller shall enter into a subordination agreement or other similar agreement to reflect such subordination.
- (d) At the Closing, Buyer shall issue the Stock Consideration to Seller by delivery of evidence of ownership satisfactory to Seller, in book-entry form, to the account(s) as designated by Seller; provided, however, the parties agree that the Stock Consideration shall be subject to adjustment pursuant to the procedures set forth in Section 3.5 hereof. The Stock Consideration will include appropriate legends to reflect any transfer restrictions imposed by law or this Agreement.

**3.3 Working Capital Adjustment.**

(a) Net Working Capital. For purposes hereof, "Net Working Capital" shall be an amount equal to (i) the Accounts Receivable, the Inventory, the Prepaid Expenses and the other current assets acquired by Buyer, minus (ii) the Trade Accounts Payable and other current liabilities assumed by Buyer, as calculated and set forth on Schedule 3.3(a), as attached hereto and incorporated herein.

(b) Working Capital Adjustment. The "Working Capital Adjustment" (which may be a positive or negative number) shall be an amount equal to the Net Working Capital,

minus the \$306,242.25 target working capital amount. The Purchase Price shall be increased or decreased by the Working Capital Adjustment as provided herein.

(c) Working Capital Adjustment Estimate. Schedule 3.3(a) sets forth Seller's good faith calculation of the Net Working Capital (the "Net Working Capital Estimate") and Seller's calculation of the Working Capital Adjustment, if any (the "Working Capital Adjustment Estimate"). The Closing Payment to Seller was increased by the Working Capital Adjustment Estimate (the "Initial Adjustment").

(d) Final Net Working Capital Report. As soon as practicable following the Closing, but in any event within 120 days following the Closing Date, Buyer shall prepare and deliver to Seller a final report (the "Final Net Working Capital Report") consisting of Buyer's preparation of the balance sheet of Seller as of the Closing Date prepared in good faith and in a manner consistent with the accounting principles set forth and described in Schedule 3.3(a) (the "Final Closing Date Balance Sheet") and Buyer's calculation of the Net Working Capital (the "Final Net Working Capital"). Seller and its representatives shall have the right to participate in and observe the process of the preparation of the Final Net Working Capital Report, including the taking of a physical inventory and the pricing thereof, and such access as they may reasonably request to any books, records, work papers or other information. The Final Net Working Capital Report shall be submitted for review to a representative of Seller and to a representative of Buyer (collectively, the "Representatives"). Within 30 days following the receipt of such Final Net Working Capital Report, the Representatives shall review the Final Net Working Capital Report and confer as to their evaluation of such report (the "Initial Review"). If following the Initial Review the Representatives agree on the preparation of the Final Closing Date Balance Sheet and the calculation of the Final Net Working Capital as set forth in the Final Net Working Capital Report, the Final Net Working Capital Report shall be binding on the parties. If, after the Initial Review, the Representatives cannot agree on the preparation of the Final Closing Date Balance Sheet and/or the calculation of the Final Net Working Capital, then during the 30 day period following the Initial Review (the "Resolution Period"), the Representatives shall use good faith efforts to resolve any disputed issues as to the Final Net Working Capital Report. If the Representatives can agree on the preparation of the Final Closing Date Balance Sheet and the calculation of the Final Net Working Capital during the Resolution Period, such determination shall be final and binding on the parties. The Representatives shall be given reasonable access to the books and records of the Business and accountant's work papers necessary for the calculation and verification of the Final Net Working Capital Report.

(e) Dispute Resolution. If the Representatives cannot resolve all of the disputed issues concerning the preparation of the Final Closing Date Balance Sheet and/or the calculation of the Final Net Working Capital as set forth in the Final Net Working Capital Report, during the Resolution Period, the issues which the Representatives disagree (and only such disputed issues) shall be submitted to an independent accounting firm of recognized standing to be mutually selected by Seller and Buyer (the "Firm") for resolution. Prior to engaging an accounting firm as the Firm, the parties shall request the proposed accounting firm to identify any matter for which such accounting firm (including its affiliates) has been engaged by any of the parties and their respective affiliates since January 1, 2011, as well as the general nature of such matter and the amount of fees received by such accounting firm in such matter, and each of the parties agrees to promptly provide the proposed accounting firm with a list of their affiliates for this purpose. If, pursuant to the preceding sentence, the proposed accounting

firm identifies that a party or its affiliates engaged the proposed accounting firm, then the party that did not so engage such proposed accounting firm shall be entitled to reject the engagement of such accounting firm as the Firm to resolve a dispute pursuant to this Section 3.3, and, in such case, Buyer and Seller shall jointly select another accounting firm to be engaged as the Firm. This process shall be repeated until an accounting firm is engaged as the Firm. Within 15 days following the engagement of the Firm, the parties shall submit to the Firm their reports setting forth their respective positions regarding the disputed issues with respect to the Final Net Working Capital Report ("Disputed Items") (and only such disputed issues), and shall direct the Firm to determine, with regard to each of the Disputed Items that were submitted to the Firm pursuant to this Section 3.3, whether the Final Closing Date Balance Sheet and the Final Net Working Capital were prepared in accordance with the requirements of this Agreement and, if not, the dollar amount of any adjustment that may be required in order for the Disputed Item in question to conform to the requirements of this Agreement and to determine the Final Closing Date Balance Sheet and the Final Net Working Capital. The Firm shall make such determination and shall set forth such determination of the Final Closing Date Balance Sheet and the Final Net Working Capital in a written form, which shall be rendered within 45 days of the date on which the Firm was selected and shall be delivered to Buyer and to Seller. Such determination shall be final and binding on the parties. Seller and Buyer shall share equally the fees and expenses of the Firm. The parties agree that the guidelines set forth in this Section shall be applied by the Firm in evaluating the parties' positions on the Disputed Items.

(f) Post-Closing Working Capital Adjustment. Upon the determination of the Final Net Working Capital pursuant to this Section 3.3 and the resulting final determination of the Working Capital Adjustment, the Purchase Price will be recalculated using the final Working Capital Adjustment (the "Final Adjustment") in lieu of the Working Capital Adjustment Estimate used in the Initial Adjustment. The "Final Working Capital Adjustment" (which may be a positive or negative number) shall be an amount equal to the Purchase Price as adjusted pursuant to the Final Adjustment, minus the Purchase Price as adjusted pursuant to the Initial Adjustment. In the event of a positive Final Working Capital Adjustment, the principal amount of the Promissory Note shall be increased by the Final Working Capital Adjustment. In the event of a negative Final Working Capital Adjustment, the principal amount of the Promissory Note shall be decreased by the shortfall.

### **3.4 Sales Performance Adjustment.**

- (a) Definitions. For purposes of this Section 3.4:
- (i) "Buyer Net Sales" means the Net Sales of Buyer generated by the Business (including new accounts) as operated by Buyer, or its affiliates, during the Net Sales Adjustment Period.
  - (i) "Net Sales" means the amount invoiced by Buyer for product orders, less discounts, sales allowances and returns.
  - (ii) "Net Sales Adjustment Period" means the period commencing on April 1, 2017 and ending on March 31, 2018.

(b) Sales Performance Adjustment. In the event the Buyer Net Sales do not exceed \$2,070,000, the Purchase Price shall be decreased as follows (the "Sales Performance Adjustment"):

<u>Buyer Net Sales</u>	<u>Sales Performance Adjustment</u>
\$1,955,001 - \$2,070,000	\$103,500
\$1,840,001 - \$1,955,000	\$155,250
\$1,840,000 or less	\$207,000

Within 45 days following the end of the Net Sales Adjustment Period, Buyer will provide written notice to Seller of Buyer's calculation of the Sales Performance Adjustment based upon the sales performance of the Business during the Net Sales Adjustment Period.

(c) Dispute Resolution. Within 30 days following the receipt of the Sales Performance Adjustment, Seller shall review the Sales Performance Adjustment and confer with Buyer as to the calculation of the Sales Performance Adjustment. If following such review, Seller agrees on the calculation of the Sales Performance Adjustment, the Sales Performance Adjustment shall be binding on the parties. If, following such review, Buyer and Seller cannot agree on the calculation of the Sales Performance Adjustment, then Buyer and Seller shall employ good faith efforts (for a period not to exceed 45 days) to resolve any disputed issues as to the Sales Performance Adjustment. If Buyer and Seller can agree on the calculation of Sales Performance Adjustment, such determination shall be final and binding on the parties. Seller shall be given reasonable access to the books and records of the Business and accountant's work papers necessary for the calculation and verification of the Sales Performance Adjustment. If Buyer and Seller cannot resolve all of the disputed issues concerning the calculation of the Sales Performance Adjustment, the issues upon which Buyer and Seller disagree (and only such disputed issues) shall be submitted to the Firm for resolution. Within 15 days following the engagement of the Firm, the parties shall submit to the Firm their reports setting forth their respective positions regarding the disputed issues with respect to the Sales Performance Adjustment ("Disputed Items") (and only such disputed issues), and shall direct the Firm to determine, with regard to each of the Disputed Items that were submitted to the Firm pursuant to this Section 3.4, whether the Sales Performance Adjustment was prepared in accordance with the requirements of this Agreement and, if not, the dollar amount of any adjustment that may be required in order for the Disputed Items in question to conform to the requirements of this Agreement and to determine the Sales Performance Adjustment. The Firm shall make such determination and shall set forth such determination of the Sales Performance Adjustment in a written form, which shall be rendered within 45 days of the date on which the Firm was selected and shall be delivered to Buyer and to Seller. Such determination shall be final and binding on the parties. Seller and Buyer shall share equally the fees and expenses of the Firm. The parties agree that the guidelines set forth in this Section 3.4 shall be applied by the Firm in evaluating the parties' positions on the Disputed Items.

(d) Effect of Sales Performance Adjustment. In the event of a Sales Performance Adjustment, the principal amount of the Promissory Note shall be decreased by the amount of the Sales Performance Adjustment.

(e) Post-Closing Operations. Except as set forth in in this Section 3.4(e), and notwithstanding anything in this Agreement to the contrary, this Agreement shall impose no



restrictions on Buyer's operation of the Business after the Closing; provided, however, that, during the Net Sales Adjustment Period: (i) Buyer shall not materially deviate from any of the standard contract terms as historically used by the Seller in conducting its business with its customers, (ii) Buyer shall not intentionally act in a commercially unreasonable manner in the conduct, operation or management of the Business after the Closing if such action is intended to interfere with the achievement of the Buyer Net Sales objectives set forth in Section 3.4(b) hereof; and (iii) Buyer shall maintain separate books and records of the Business after the Closing so as to make calculation of Buyer Net Sales feasible and verifiable.

(f) Adjustment Exceptions. Without the prior consent of Seller, promptly upon the consummation of (i) a merger or consolidation of Buyer with a third party, or a lease, sale or other conveyance of a material part of the assets or business of Buyer to a third party outside the ordinary course of its business (unless, following any such merger, consolidation or conveyance, all or substantially all of the stockholders of Buyer immediately prior to such transaction own, directly or indirectly, more than 50% of the combined voting power of the then-outstanding voting securities of the entity resulting from such transaction (including an entity that, as a result of such transaction, owns Buyer or all or substantially all of Buyer's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such transaction) or (ii) an assignment by Buyer in violation of this Agreement, in each case during the Net Sales Adjustment Period, there shall be no Sales Performance Adjustment and the Purchase Price shall not be adjusted.

### 3.5 Stock Drop Adjustment.

- (a) Definitions. For purposes of this Section 3.5:
- (i) "Closing Date Stock Value" shall be an amount equal to \$0.39 per share of common stock of Buyer.
  - (ii) "Liquidation Event" means the dissolution of Buyer, or the merger or consolidation of Buyer with a third party, or the lease, sale or other conveyance of a material part of the assets or business of Buyer to a third party outside the ordinary course of its business (unless, following any such merger, consolidation or conveyance, all or substantially all of the stockholders of Buyer immediately prior to such transaction own, directly or indirectly, more than 50% of the combined voting power of the then-outstanding voting securities of the entity resulting from such transaction (including an entity that, as a result of such transaction, owns Buyer or all or substantially all of Buyer's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such transaction).
  - (iii) "Stock Drop Price" shall be the greater of: (A) the average Stock Price during the Stock Drop Period (as defined in Section 3.5(b) hereof); or (B) the per share tangible book value of Buyer determined as of the calendar quarter end immediately preceding the last day of the Stock Drop Period.

- (iv) "Stock Ownership Amount" shall equal 1,000,000 shares of common stock of Buyer owned by Seller as of Closing Date.
- (v) "Stock Price" means closing price of the common stock of Buyer, as published by the OTC Markets.
- (vi) "Stock Protection Period" means the period commencing on the Closing Date and ending upon the earlier of: (A) the two year anniversary of the Closing Date; or (B) the consummation of a Liquidation Event.
- (vii) "Stock Protection Value" shall be an amount equal to the Closing Date Stock Value, multiplied by the Stock Ownership Amount.

(b) Stock Drop Adjustment. Subject to Sections 3.5(c) and (d) hereof, the Stock Consideration shall be subject to one time upward adjustment as provided in this Section 3.5 (the "Stock Drop Adjustment") if and only if (and for the first occurrence of): (i) the Stock Price remains below \$0.33 for a period of 20 consecutive business days during the Stock Protection Period (the "Stock Drop Period"); and (ii) Seller has not sold or otherwise transferred any of the Stock Consideration during the Stock Protection Period. For purposes of the Stock Drop Adjustment, the shares of common stock of Buyer to be issued to Seller shall be in such amount that the total value of the Stock Ownership Amount and such additional issued common stock, determined based upon the Stock Drop Price, shall equal the Stock Protection Value. In the event of a Stock Drop Adjustment, Buyer shall promptly issue the additional common stock of Buyer to Seller by delivery of evidence of ownership satisfactory to Seller in book-entry form to the account(s) as designated by Seller. Notwithstanding the foregoing, Buyer shall have the right, in its discretion, to satisfy the Stock Drop Adjustment by a cash payment to Seller in lieu of the issuance of additional common stock of Buyer.

(c) Share Transaction Events. The Stock Ownership Amount and the \$0.33 stock price referenced in this Section 3.6 shall be subject to equitable adjustment if at any time during the Stock Protection Period there is a change in the number of outstanding shares of common stock of Buyer through the declaration of stock dividends, or through a recapitalization resulting in stock splits, combinations or exchanges of shares of stock.

(d) Stock Drop Adjustment Exception Event. Notwithstanding the provisions of this Section 3.5, there shall be no Stock Drop Adjustment if the decline in the Stock Price that triggered the Stock Drop Adjustment is attributable to any effects, changes or developments relating generally to financial or securities markets or general economic conditions that do not affect Buyer more adversely than other entities in its industry (the "Stock Drop Adjustment Exception Event"). In the event of a Stock Drop Adjustment Exception Event, the parties shall use good faith efforts to negotiate an equitable adjustment to the parameters for a Stock Drop Adjustment.

**3.6 Allocation of Purchase Price.** At the Closing, the parties shall agree upon an allocation of the Purchase Price which will be set forth on attached Schedule 3.6. Both parties shall utilize such allocations for all tax reporting purposes and shall defend any examination or audit relating thereto in a manner consistent with such allocation. Such allocation shall be reflected, as well, on Form 8594 (Asset Acquisition Statement Under Section 1060), which each

of Buyer and Seller shall file separately with the Internal Revenue Service pursuant to the requirements of Section 1060 of the Internal Revenue Code of 1986, as amended (the "Code").

#### **SECTION 4 REPRESENTATIONS AND WARRANTIES OF SELLER AND MEMBER**

Seller and Member hereby represent and warrant to Buyer that the following statements are correct and complete as of Closing, except as set forth in the Disclosure Schedule accompanying this Agreement (the "Disclosure Schedule"). The Disclosure Schedule shall reference the representations and warranties as to which exception is made and shall be arranged in paragraphs corresponding to the numbered paragraphs contained in this Section 4. When reference is made to the "Knowledge of Seller", or any term of similar import, each such term shall mean the actual knowledge of Member after reasonable inquiry by him into the subject matter of the relevant representation or warranty. For purposes hereof, "Phase I" shall mean the Phase I Environmental Site Assessment performed by Environmental Support Network, Inc. and dated July 13, 1999, Contract No. C-01836. For purposes hereof, "Ground Water Report" shall mean the Soil and Gas Groundwater Sampling performed by HzW Environmental Consultants, LLC, dated August 12, 2016, Contract No. H16221. For purposes of this Section 4, "Material Adverse Effect", "material adverse effect", "material", "materially" or other terms of a similar nature, shall mean a material adverse effect on the Business, results of operations, financial condition, prospects, assets, liabilities, employees, cash flows or working capital of Seller; provided, however, that the following circumstances, changes, developments, conditions, events or effects shall not be taken into account in determining whether a "Material Adverse Effect" has occurred (but only to the extent Seller is not disproportionately affected thereby relative to other participants in the industry in which Seller's business is currently conducted): (a) those caused by, arising out of or attributable to the general political or economic environment or affecting the securities market generally; (b) those arising out of or affecting the industry in which the Business operates generally; or (c) those caused by, arising out of or attributable to acts of terrorism or war (whether or not declared).

**4.1 Organization and Standing; Power and Authority.** Seller is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Ohio, and has full limited liability company power and authority to operate the Business as now being conducted, and own the Assets, and to execute and perform this Agreement and the transactions and other agreements and instruments contemplated by this Agreement. This Agreement and all other agreements and instruments to be executed and delivered by Seller and/or Member in connection herewith have been duly executed and delivered by such party. The execution, delivery and performance of this Agreement and all other agreements and instruments to be executed and delivered by Seller and/or Member in connection herewith has been duly approved by all necessary limited liability company action of Seller, and constitutes the valid and binding obligation of such party, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency and other similar laws affecting the enforceability of creditors' rights generally, general equitable principles and the discretion of courts in granting equitable remedies. The person signing this Agreement and all other agreements and instruments to be executed and delivered by Seller in connection herewith has been duly authorized to execute and deliver this Agreement and such other agreements and instruments on behalf of Seller.

**4.2 No Conflicts; Defaults.** Neither the execution and delivery of this Agreement and the other agreements and instruments to be executed and delivered in connection herewith by Seller, nor the performance by Seller of the transactions contemplated hereby or thereby, will: (a) violate, conflict with, or constitute a default under, any of the terms of Seller's articles of organization, operating agreement or other organizational documents or any provisions thereof, or result in the acceleration of any obligation under any contract, sales commitment, license, purchase order, security agreement, mortgage, note, deed, lien, lease, agreement, instrument, order, judgment or decree relating to the Business or the Assets, or by which the Assets are bound; (b) result in the creation or imposition of any liens in favor of any third person upon any of the Assets; (c) violate any law, statute, judgment, decree, order, rule or regulation of any Governmental Authority ("Laws"); or (d) constitute an event which, after notice or lapse of time or both, would result in such violation, conflict, default, acceleration, or creation or imposition of liens. Seller is not in violation of or in default under any material provision of any contract, sales commitment, license, purchase order, security agreement, mortgage, note, deed, lien, lease, agreement, instrument, order, judgment or decree which would have a Material Adverse Effect on the Business or the Assets, and to the Knowledge of Seller, there exists no condition or event which, after notice or lapse of time or both, would result in any such violation or default.

**4.3 Financial Statements.** Seller has delivered to Buyer copies of Seller's internal financial statements as of December 31, 2016 and December 31, 2015 (collectively, the "Financial Statements"). The Financial Statements have been derived from the books and records of Seller and present fairly the financial position of Seller as of the respective dates indicated and the results of operation for the periods stated therein. The Financial Statements have been consistently prepared and reflect all properties and assets, real, personal or mixed, used by Seller in the Business on the date thereof.

**4.4 Absence of Undisclosed Liabilities.** Except as set forth on Schedule 4.4, Seller has no debts, liabilities or obligations (whether absolute, accrued, contingent or otherwise) of any nature whatsoever, except: (a) liabilities which are reflected or reserved against on the most recent balance sheet included in the Financial Statements; (b) liabilities which are not reflected or reserved against on the most recent balance sheet included in the Financial Statements and which are not in excess of \$10,000 in the aggregate; and (c) liabilities incurred in the ordinary course of business and consistent with past practice since the date of the most recent balance sheet included in the Financial Statements.

**4.5 Title to the Assets.** Except for the Retained Assets, the Assets constitute all of the assets material to the operation of the Business, and there are no assets used in or otherwise material to the Business owned by or in the possession of another entity or individual. Except as set forth on Schedule 4.5, Seller has good title to, or has the right to use and transfer to Buyer, the Assets, and the Assets are free and clear of all liens, encumbrances, obligations and claims of any kind or nature whatsoever. The delivery to Buyer of the instruments of transfer of ownership contemplated by this Agreement will vest good, marketable and exclusive title to the Assets to Buyer, free and clear of all liens, encumbrances, obligations and claims of any kind or nature whatsoever. Except as set forth on Schedule 4.5, none of the Assets are subject to, or held under, any lease, mortgage, security agreement, conditional sales contract or other title retention agreement, or is other than in the sole possession and under the sole control of Seller.

**4.6 Accounts Receivable.** All of the Accounts Receivable have arisen in the ordinary course of business and are current and are collectible net of any reserves shown on the latest Financial Statement, which reserves are adequate. There are no set-offs, counterclaims or disputes asserted against, and no discounts or allowances from, the Accounts Receivable other than in amounts which, in the aggregate, are not in excess of such reserve.

**4.7 Inventory.** The Inventory consists of items of such quantity, quality and mix as are historically consistent with past business practices and is usable or saleable in the ordinary course of business, except for obsolete items which have been written down to estimated net realizable value. With the exception of items which have been written down to their estimated net realizable value, such inventory is in good and proper physical condition free from material defect in materials and workmanship. Except as set forth on Schedule 4.7, all Inventory is located at the Facility, and has not been consigned to, or held on consignment from, any third person. Seller is not under any liability or obligation with respect to the return of inventory in possession of any third person.

**4.8 Contracts.** Each of the Assigned Contracts is in full force and effect, valid and binding upon and enforceable by and against Seller, and to the Knowledge of Seller, all other parties thereto in accordance with their respective terms. Seller is not in default under the terms of any Assigned Contract, and to the Knowledge of Seller, no other party to any Assigned Contract is in default under the terms of any Assigned Contract. Seller has delivered to Buyer accurate and complete copies of each Assigned Contract. The Assigned Contracts include all material contracts or agreements to which Seller is a party or by which Seller or its Assets are bound or may be bound thereby in any respect.

**4.9 Permits.** The Permits constitute all of the permits, licenses, franchises and other authorizations from any Governmental Authority used by Seller in the Business. Except as set forth on Schedule 4.9, Seller has applied for renewal of any Permit that has expired or will expire within 90 days after the Closing Date.

**4.10 Intellectual Property.** Schedule 4.10 contains a complete list of each trade name, trademark, service mark, patent and copyright, and any application for any of the foregoing, owned or used by Seller in the operation of the Business. Seller has the right to use all of its Intellectual Property, and the consummation of the transactions contemplated by this Agreement will not impair such rights or require the consent of any person to use the Intellectual Property. The operation of the Business by Seller does not, and to the Knowledge of Seller, no one has asserted to Seller that such operations do, infringe on the proprietary rights of any person.

**4.11 Absence of Changes.** Since December 31, 2015, Seller has conducted the Business in the ordinary and regular course, and except as set forth on Schedule 4.11, there has not been any event or condition of any character or change in Seller's condition (financial or other), assets, liabilities, operations, business, properties, earnings or prospects, including any actual or anticipated loss of a major customer or supplier of the Business, that would have a Material Adverse Effect.

**4.12 Litigation.** Except as set forth on Schedule 4.12, there is no litigation, investigation, action, suit, claim or proceeding now pending or, to the Knowledge of Seller,

threatened before any court, arbitration or mediation panel, administrative or regulatory body or other Governmental Authority, to which Seller is a party that would have a Material Adverse Effect. To the Knowledge of Seller, there exists no state of facts or occurrence of any event related to the Business forming the basis for any litigation, investigation, action, suit, claim or proceeding against Seller.

**4.13 Customers and Suppliers.** To the Knowledge of Seller and Member no customer of the Business intends to terminate, eliminate or reduce its business relations with Seller. To the Knowledge of Seller and Member no supplier of the Business intends to terminate, eliminate or reduce its business relations with Seller. Seller is not involved in any controversy with any of its customers or suppliers that would have a Material Adverse Effect.

**4.14 Regulatory Compliance.** Excluding Laws addressed in Section 4.15, 4.16, 4.17, and 4.18 hereof, Seller has previously conducted the Business in compliance with all Laws except where such failure to comply would not have a Material Adverse Effect. To the Knowledge of Seller, Seller is not currently in violation of any Laws that would have a Material Adverse Effect.

**4.15 Environmental and Safety Compliance.** Except as set forth on Schedule 4.15, in the Phase I, or in the Ground Water Report, Seller has complied with all Environmental Laws except where such failure to comply would not have a Material Adverse Effect. Except as set forth on Schedule 4.15, in the Phase I, or in the Ground Water Report, Seller has obtained and been in material compliance with all of the terms and conditions of all permits, licenses and other authorizations, which are required under, and has complied in all material respects with all of the limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and time tables which are contained in, all applicable Environmental Laws (including (a) rules, regulations, codes, and plans, and (b) judgments, orders, decrees, stipulations, injunctions and charges thereunder, which are specifically applicable to Seller). Except as set forth on Schedule 4.15, in the Phase I, or in the Ground Water Report, no pollutant, contaminant or chemical, industrial, hazardous or toxic waste has ever been buried, stored, spilled, leaked, discharged, emitted or released in violation of any applicable Environmental Law on, in, from or under any real property on which the Business is, or has ever been, conducted. With respect to the Business, Seller has not received any written information, request or notice from any Governmental Authority or private or public entity advising Seller that Seller is responsible or potentially responsible for response costs with respect to a release or threatened release of any pollutant, contaminant or chemical, industrial, hazardous or toxic waste.

**4.16 Taxes.** Seller has correctly and properly prepared in compliance with all applicable Laws and duly and timely filed or caused to be filed all federal, state and local tax returns, reports, employment withholding and other similar filings required to be filed by Seller (the "Tax Returns") with respect to any federal, state or local taxes, assessments, interest, penalties, deficiencies, fees and other government charges or impositions (including all income, commercial activity, franchise, sales, capital, profits, use, ad valorem, withholding, payroll, employment, excise, stamp, property, customs, duties and other taxes or similar governmental charges or impositions under any Law) (the "Taxes") affecting or relating to the Business and required to be filed by it with any Governmental Authority. All Taxes owed to any Governmental Authority by Seller for a period covered by such Tax Returns, and all claims, demands, assessments, judgments, costs and expenses connected therewith, have been duly and

timely paid in full, or Seller has made adequate provisions for the payment of all Taxes. Seller has not executed or filed with any Governmental Authority any agreement extending the period for assessment or collection of any Taxes. There is no unassessed Tax deficiency proposed or threatened against Seller. There are no liens on any of the Assets as a result of any Tax liabilities. To the Knowledge of Seller, there are, and will hereafter be, no net tax deficiencies (including penalties and interest) of any kind assessed against or relating to Seller with respect to any of the taxable periods ending on or before, or including, the Closing Date of a character or nature which would have a Material Adverse Effect or which would result in liens or claims on any of the Assets or on Buyer's title thereto or use thereof.

**4.17 Employee Plans.** Except as set forth on Schedule 4.17: (a) Seller neither maintains nor contributes to any employee benefit plans, as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or any other severance, bonus, stock option, stock appreciation, stock purchase, retirement, insurance, health, welfare, vacation, severance pay, retired employee benefits, pension, profit-sharing or deferred compensation plans, agreements or arrangements providing benefits for employees or former employees of Seller relating to the Business (the "Employee Plans"), nor has Seller or any of its directors or officers taken any action directly or indirectly to obligate Seller to institute any such Employee Plans; and (b) Seller is not now and has not been a contributing employer to any multi-employer pension plan as defined in Section 3(37) of ERISA. All Employee Plans listed on the Disclosure Schedule have been maintained, operated and administered in compliance with all requirements of any Law concerning employee benefit plans including ERISA and the Code. All contributions required to be made under any Employee Plans for current or former employees have been timely made. No pension plan or other Employee Plan maintained by Seller, which is subject to Section 412 of the Code or Section 302 of ERISA, has an "accumulated funding deficiency" (whether or not waived) within the meaning of such sections. Seller has not provided, and is not required to provide, security to any pension plan pursuant to Section 401(a)(29) of the Code.

**4.18 Labor Matters.** Seller has complied with all Laws concerning employment, employment practices, terms and conditions of employment, wages and hours or termination or layoff (including any charge or complaint filed by any individual or labor organization with the National Labor Relations Board, Equal Employment Opportunity Commission, Ohio Civil Rights Commission, United States Department of Labor, Ohio Department of Commerce, Occupational Safety and Health Administration or any other Governmental Authority) except where such failure to comply would not have a Material Adverse Effect. There is no employment related charge, complaint, grievance, investigation or inquiry of any kind pending, or to the Knowledge of Seller, threatened in any forum relating to an alleged violation or breach by Seller (or its directors or officers) of any law or contract. Seller is not a party or otherwise subject to any collective bargaining agreement. To the Knowledge of Seller, there are no union organizing activities in process involving any of the employees of the Business. Seller has not experienced any strikes, lockouts, work stoppages, grievances, claims of unfair labor practices or threats thereof during the past five years. There are no written or unwritten employment practices affecting the Business. To the Knowledge of Seller, no employee of Seller is subject to any secrecy or noncompetition agreement or any other agreement or restriction of any kind that would impede in any way the ability of such employee to carry out fully all activities of such employee in furtherance of the Business.

**4.19 Approvals.** All consents, approvals, authority and other requirements prescribed by any Law or any contract, commitment or undertaking, which must be obtained or satisfied by Seller for the consummation of the sale and transfer of the Assets contemplated by this Agreement, have been obtained and satisfied.

**4.20 Insurance.** Seller maintains policies of fire, extended coverage, liability, fidelity, workers' compensation and other forms of insurance covering the Business and its properties and assets in amounts and against such losses and risks as are generally maintained for comparable businesses and properties.

**4.21 Products.** There are no existing or, to the Knowledge of Seller, threatened product liability or warranty claims against Seller based on products which are, or are alleged to be, defective or fail to meet product warranties. All existing warranties covering Seller's products were issued in the normal course of business and are consistent with Seller's normal warranty policy as set forth on Schedule 4.21. No claims of customers or others based on alleged or admitted defects of material, workmanship or design or otherwise in or respect of any of Seller's products are presently pending or, to the Knowledge of Seller, threatened. To the Knowledge of Seller, there have been no occurrences during the last five years of damages to persons or property involving any defects or alleged defects in any of Seller's products or services performed by or on behalf of Seller relating to the Business.

**4.22 Brokers, Finders and Agents.** Seller is not directly or indirectly obligated to anyone acting as broker, finder or in any other similar capacity in connection with this Agreement or the transactions contemplated hereby.

**4.23 Investment Representations.** In connection with the Stock Consideration received by Seller, subject to the representations and warranties of Buyer, Seller has obtained all information deemed necessary or appropriate in order to evaluate an investment in the common stock of Buyer. Seller has been advised and understands that Seller must bear the economic risk of its investment in the in the common stock of Buyer for an indefinite period of time because such common stock is not registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities Laws, and that such common stock cannot be resold, transferred, assigned or otherwise disposed of, including routine sales, unless such common stock is registered under the Securities Act or an exemption from registration under the Securities Act is available; and provided such resale, transfer, assignment or disposition is otherwise in compliance with applicable Laws. Seller is acquiring the Stock Consideration for its own account for investment purposes and not with a view toward the sale or disposition thereof and that no resale or other transfer or disposition of the Stock Consideration will be made, except in accordance with applicable Laws.

**4.24 Disclosure.** No representation or warranty made by Seller contained in this Agreement or in any other writing furnished pursuant hereto contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements and facts contained herein or therein, in light of the circumstances in which they were or are made, false or misleading.



## SECTION 5 REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer hereby represents and warrants to Seller that the following statements are correct and complete as of the Closing. When reference is made to the "Knowledge of Buyer", or any term of similar import, each such term shall mean the actual knowledge of any director or officer of Buyer after reasonable inquiry by them into the subject matter of the relevant representation or warranty. For purposes of this Section 5, "Material Adverse Effect" shall mean a material adverse effect on the business, results of operations, financial condition, prospects, assets, liabilities, employees, cash flows or working capital of Buyer; provided, however, that the following circumstances, changes, developments, conditions, events or effects shall not be taken into account in determining whether a "Material Adverse Effect" has occurred (but only to the extent Buyer is not disproportionately affected thereby relative to other participants in the industry in which Buyer's business is currently conducted): (a) those caused by, arising out of or attributable to the general political or economic environment or affecting the securities market generally; (b) those arising out of or affecting the industry in which the business of Buyer operates generally; or (c) those caused by, arising out of or attributable to acts of terrorism or war (whether or not declared).

**5.1 Organization and Standing; Power and Authority.** Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has full power and authority to acquire the Assets, and to execute and perform this Agreement and the transactions and other agreements and instruments contemplated by this Agreement. Buyer has the requisite corporate power and authority to carry on its business as it is currently being conducted. This Agreement and all other agreements and instruments in connection herewith will be duly executed and delivered by Buyer. The execution, delivery and performance of this Agreement and all other agreements and instruments to be executed and delivered by Buyer in connection herewith have been duly approved by all necessary corporate action, and constitute the valid and binding obligation of Buyer, enforceable in accordance with its terms. The person signing this Agreement and all other agreements and instruments to be executed and delivered by Buyer in connection herewith has been duly authorized to execute and deliver this Agreement and such other agreements and instruments on behalf of Buyer.

**5.2 No Conflicts; Defaults.** Neither the execution and delivery of this Agreement and the other agreements and instruments to be executed and delivered in connection herewith by Buyer, nor the performance by Buyer of the transactions contemplated hereby or thereby, will: (a) violate, conflict with, or constitute a default under, any of the terms of Buyer's articles of incorporation, code of regulation or other organizational documents or any provisions thereof, or result in the acceleration of any obligation under any contract, sales commitment, license, purchase order, security agreement, mortgage, note, deed, lien, lease, agreement, instrument, order, judgment or decree relating to the business of Buyer; (b) result in the creation or imposition of any liens in favor of any third person upon any of the assets of Buyer; (c) violate any Laws; or (d) constitute an event which, after notice or lapse of time or both, would result in such violation, conflict, default, acceleration, or creation or imposition of liens.

**5.3 Litigation.** There is no litigation, investigation, action, suit, claim or proceeding now pending or, to the Knowledge of Buyer, threatened before any court, arbitration or mediation panel, administrative or regulatory body or other Governmental Authority, to which

Buyer is a party that would have a Material Adverse Effect . To the Knowledge of Buyer, there exists no state of facts or occurrence of any event related to the business of Buyer forming the basis for any litigation, investigation, action, suit, claim or proceeding against Buyer.

**5.4 Approvals.** All consents, approvals, authority and other requirements prescribed by any Law or any contract, commitment or undertaking, which must be obtained or satisfied by Buyer for the consummation of the transactions contemplated by this Agreement, have been obtained and satisfied.

**5.5 Stock Consideration.** As to the Stock Consideration (a) upon Buyer's delivery of the Stock Consideration to Seller, the Stock Consideration will be duly and validly issued, fully paid and nonassessable and will be free and clear of any and all liens, claims and encumbrances of any kind or nature other than restrictions on transfer under applicable state and federal securities laws, (b) there are no pre-emptive or other subscription rights with respect to the Stock Consideration, and all of the Stock Consideration has been duly authorized, validly issued without violating the pre-emptive or other rights of third-parties, (c) there are no voting trusts, proxies or other contracts in effect with respect to the Stock Consideration, and (d) Buyer has provided to Seller all the information reasonably available to it without undue expense that Seller has requested for deciding whether to accept the Stock Consideration as part of the Purchase Price, and Buyer has provided or otherwise made available to Seller all information that Buyer believes is reasonably necessary to enable Seller to make such decision.

**5.6 Brokers, Finders and Agents.** Buyer is not directly or indirectly obligated to anyone as a broker, finder or in any other similar capacity in connection with this Agreement or the transactions contemplated hereby.

**5.7 Disclosure.** No representation or warranty made by Buyer contained in this Agreement or in any other writing furnished pursuant hereto, contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements and facts contained herein or therein, in light of the circumstances in which they were or are made, false or misleading.

## SECTION 6 COVENANTS

### 6.1 Post-Closing Covenants.

(a) Transfer of Business Relationships. Seller shall use commercially reasonable efforts to assist in the transfer to Buyer of the ongoing operation and reputation of the Business, and Seller's suppliers, distributors, sales agents, manufacturer's representatives and customer relationships relating to the Business.

(b) Transfer of Permits. Seller shall use commercially reasonable efforts to assist in the transfer to Buyer, with Buyer's assistance and cooperation, of the Permits, in form and substance the same as the Permits that are then held by Seller. Seller, with Buyer's assistance and cooperation, shall provide all required notices and reports to the appropriate persons with respect to the Permits that may be necessary for such transfer and the ownership, operation and use of the Assets by Buyer from and after the Closing. Pending any delayed

transfer of a Permit, Seller will maintain in force, and authorize Buyer to operate under and to utilize, the Permit in question to the extent permitted by such Permit and by Law and provided Buyer operates in compliance with such Permit.

(c) Seller's Records. Seller shall, whenever reasonably requested by Buyer, permit Buyer to have access to and make copies of, all records relating to the Business which are retained by Seller in accordance with this Agreement, all at Buyer's sole cost and expense. Seller, at Seller's cost and expense, shall preserve and maintain any books and records relating to the Business retained by Seller for at least seven years after the Closing Date.

(d) Buyer's Records. Buyer shall, whenever reasonably requested by Seller, permit Seller to have access to and make copies of all business records, which are a part of the Assets turned over to Buyer in accordance with this Agreement all at Seller's sole cost and expense. Buyer, at Buyer's cost and expense, shall preserve and maintain the business records which are a part of the Assets for at least seven years after the Closing Date.

(e) Accounts Receivables. Buyer shall have the right to collect the Accounts Receivable and in no event will Seller or Member collect, attempt to collect or otherwise negotiate any of the Accounts Receivable. Seller shall promptly remit to Buyer in kind any payments received by Seller in payment of any Accounts Receivable.

(f) Tax Filings. Seller and Buyer shall comply with all post-Closing tax filings as may be required to be filed following the Closing under applicable Law. Seller shall file all final sales tax and employment tax returns in Ohio and deliver to Buyer certificates received by Seller from the Ohio tax commissioner certifying that all such tax liabilities of Seller through the Closing Date have been paid in full.

(g) Name Change. Seller shall change its entity name within 30 days of the Closing. Neither Seller nor Member shall use the name "Washington Laboratories" or any similar name in any business in which Seller or Member may conduct or engage.

(h) Stock Sale Restriction. During the two year period following the Closing Date, Seller shall not sell any portion of the Stock Consideration for an amount that is less than \$0.40 per share.

(i) Sales of Common Stock. Buyer shall comply with the disclosure requirements of 17 C.F.R. § 230.144 ("Rule 144"), including 17 C.F.R. § 230.144(c), so as to ensure that Seller will be able to sell the common stock of Buyer pursuant to Rule 144. Furthermore, Buyer will, upon request of Seller, pay for all opinions or similar letters to its transfer agent, as well as pay for all transfer agent costs, relating to the removal of the Rule 144 restrictive legend on share certificates representing the shares of common stock of Buyer held by Seller.

## **6.2 Restrictive Covenants.**

(a) Nondisclosure. Seller and Member shall at all times hold in strictest confidence and not use (other than in furtherance of its duties under this Agreement) any and all confidential information within their knowledge concerning the Business, except when required

by Law, when enforcing the rights of Seller hereunder and when necessary and proper to apprise the attorneys, accountants and other advisors of Seller; provided, however, that that nothing herein shall prohibit Seller and Member from using, divulging or conveying any such confidential information which at the time of its use, divulgence or conveyance is part of the public domain by publication or otherwise or has lost its confidential status. For purposes hereof, confidential information includes financial information, customer and supplier information, sales information, pricing lists, manufacturing information and all other information pertaining to the Business that is not intended by Buyer for dissemination.

(b) Noncompetition. Commencing on the Closing Date and ending on the fifth anniversary of the Closing Date (the "Restricted Period"), neither Seller nor Member shall, directly or indirectly, either individually or acting in concert with any third party, as an owner, investor, director, employee, advisor, representative, agent, consultant, lender or in any other capacity on behalf of any other person, organize, establish, own, operate, manage, control, invest in, permit the name of Seller or Member to be used by, render services for, participate or engage in, or assist any person that engages in or owns, invests in, operates, manages or controls any venture or enterprise which directly or indirectly, competes with the Business (as such Business was conducted, operated, engaged in, or carried on prior to the Closing by Seller or its predecessor (including Seller)) within a 100 mile radius of any location where Seller has sold products or services at any time during the two year period preceding the Closing Date (the "Restricted Territory"). Seller and Member acknowledge and agree that: (i) in and throughout the Restricted Territory, and for a period prior to and up through the Closing Date, Seller carried on the Business that owned the Assets; (ii) Buyer intends to carry on a similar business in the Restricted Territory on and after the Closing Date for an indefinite duration not less than the Restricted Period; and (iii) the Restricted Territory and Restricted Period are otherwise reasonable in all respects. Notwithstanding the foregoing, nothing herein shall prohibit Seller or Member from solely holding equity in publicly traded corporations engaged in the Business in the Restricted Territory, provided that such shares, in the aggregate, represent less than 2% of the issued and outstanding capital stock of the respective corporations.

(c) Customer Non-solicitation. During the Restricted Period, neither Seller nor Member shall, directly or indirectly, either individually or acting in concert with any third party, as an owner, investor, director, employee, advisor, representative, agent, consultant, lender or in any other capacity on behalf of any other person, solicit, call upon or engage in any business activity with any person which is or was a customer or prospective customer of Seller, or assist any third party in such activity, for the purpose of directly or indirectly selling or otherwise providing any products or services which are competitive with the products or services of the Business. For purposes of the foregoing covenant, a customer of Seller is any customer to whom Seller has sold products or services at any time during the five year period preceding the Closing Date, and a prospective customer of Seller is defined as a potential customer which Seller had actually solicited at any time during the two year period preceding the Closing Date.

(d) Employee Non-solicitation. During the Restricted Period, neither Seller nor Member shall, directly or indirectly: (i) employ, hire, solicit for employment or otherwise contract for the services of any individual who is or was an employee of Buyer during the Restricted Period; or (ii) otherwise induce or attempt to induce any employee of Buyer to leave the employ of Buyer, or in any way knowingly interfere with the relationship between Buyer and any employee respectively thereof; provided, however, that the foregoing will not prohibit any

Seller or Member from using solicitations (such as general newspaper or internet advertisements) not targeted at any such current or former employees, agents or contractors.

(e) Enforcement. Seller and Member acknowledge that a breach of their respective covenants contained in this Section 6.2 may cause irreparable damage to Buyer, the exact amount of which would be difficult to ascertain, and that the remedies at law for any such breach or threatened breach would be inadequate. Accordingly, Seller and Member agree that if either such party breaches or threatens to breach any of the covenants contained in this Section 6.2, in addition to any other remedy which may be available at law or in equity, Buyer may be entitled to specific performance and injunctive relief to prevent the breach or any threatened breach thereof without bond or other security or a showing that monetary damages will not provide an adequate remedy.

(f) Scope of Covenants. Seller and Member further acknowledge that the time, scope, geographic area and other provisions of this Section 6.2 have been specifically negotiated by sophisticated commercial parties and agree that they consider the restrictions and covenants contained in this Section 6.2 to be reasonable and necessary for the protection of the interests of Buyer and the Assets, but if any such restriction or covenant shall be held by any court of competent jurisdiction to be void but would be valid if deleted in part or reduced in application, such restriction or covenant shall apply with such deletion or modification as may be necessary to make it valid and enforceable. The restrictions and covenants contained in each paragraph of this Section 6.2 shall be construed as separate and individual restrictions and covenants and shall each be capable of being severed without prejudice to the other restrictions and covenants or to the remaining provisions of this Agreement, and no claim of Seller or Member against Buyer, whether based on this Agreement or otherwise, shall constitute a defense to the enforcement of the restrictions set forth in this Section 6.2.

(g) Breach by Buyer. Notwithstanding anything contained in this Section 6.2 to the contrary, from and after the occurrence of an Event of Default (as defined in the Promissory Note), and until such Event of Default has been cured or waived, the restrictive covenants set forth in this Section 6.2 will be null and void and be of no force and effect; provided, however, no Event of Default will have been deemed to have occurred hereunder if the alleged Event of Default arises from Buyer's nonpayment under the Promissory Note while the parties are awaiting resolution of a bona fide indemnification claim by Buyer pursuant to Section 7.2 hereof.

**6.3 Employment Matters.** Buyer shall have no obligation to employ any employee of Seller, and any of Seller's current employees who are extended offers of employment by Buyer shall be employed "at will" without any obligation of Buyer to employ such employees for any specific period of time. Subject to any applicable legal restrictions, Seller shall provide Buyer, in a timely manner, with any employment information that Buyer may reasonably request with respect to any employee of Seller. Seller shall be responsible for all costs associated with claims for workers' compensation and other occupational health or injury claims of employees of Seller up to and including the Closing Date, and for any claim filed subsequent to the Closing Date in connection with any injury, event or occurrence taking place on or prior to the Closing Date. Seller shall pay, in the normal course of business, any accrued wages and any other pay or benefits due employees of Seller relating to employment with Seller on or prior to the Closing Date. Seller shall comply with all Laws regarding any termination or layoff, or contemplated

termination or lay-off, of Seller's employees relating to the Business. Seller shall provide its employees on a timely basis all appropriate notices regarding continuation of health care coverage and rights of conversion for insured benefits, and Seller shall be responsible for any net costs incurred by Seller or Buyer in connection with such continued health care coverage for any of Seller's former employees who do not become employees of Buyer.

## SECTION 7 INDEMNIFICATION

**7.1 Survival of Representations and Warranties.** The representations and warranties of the parties shall survive the Closing for a period of 18 months except that (a) the representations and warranties of Seller set forth in Sections 4.1, 4.5 and 4.22 hereof and the representations and warranties of Buyer set forth in Sections 5.1 and 5.6 hereof shall survive the Closing indefinitely, and (b) the representations and warranties of Seller set forth in Sections 4.15, 4.16 and 4.17 hereof and the representations and warranties of Buyer set forth in Section 5.5 hereof shall survive for a period not less than the applicable statute of limitations for any claims arising thereunder. For purposes of this Agreement, the "Fundamental Seller Representations" shall mean the representations and warranties of Seller and Member set forth in Sections 4.1, 4.5, 4.15, 4.16, 4.17 and 4.22 hereof, and the "Fundamental Buyer Representations" shall mean the representations and warranties of Buyer set forth in Sections 5.1, 5.5 and 5.6 hereof. The period for which a representation or warranty survives the Closing referenced in the immediately preceding sentence is referred to herein as its "Survival Period". For the avoidance of doubt, any claim brought under this Agreement for breach of representation or warranty after the expiration of the applicable Survival Period shall have no force or effect. Notwithstanding the foregoing provisions of this Section 7.1, there shall be no expiration for any claims for fraud, willful misconduct or intentional misrepresentation.

**7.2 Indemnification by Seller and Member.** Subject to the limitations set forth in Section 7.5 hereof, Seller and Member shall jointly and severally hold Buyer harmless from and hereby indemnify and agree to defend Buyer from and against any and all claims, demands, causes of action, losses, costs, damages and expenses (including reasonable attorneys' fees and expenses of enforcing this Section 7, but specifically excluding consequential, special, incidental, punitive or similar damages except in the case of fraud, willful misconduct or intentional misrepresentation or to the extent actually awarded to a third party) ("Damages") incurred by Buyer which are attributable directly or indirectly, in whole or in part to: (a) any breach by Seller or Member of any representation, warranty, covenant or obligation contained in this Agreement or any other agreement or instrument to be executed by Seller in connection herewith; and (b) the Retained Liabilities. Subject to the limitations set forth in Section 7.5 hereof, Buyer shall have the right to offset against any amounts due Seller under the Promissory Note for any Damages incurred by Buyer subject to indemnification hereunder.

**7.3 Indemnification by Buyer.** Subject to the limitations set forth in Section 7.5 hereof, Buyer shall hold Seller harmless from and hereby indemnify and agree to defend Seller from and against any and all Damages incurred by Seller which are attributable, directly or indirectly, in whole or in part to: (a) any breach by Buyer of any representation, warranty, covenant or obligation contained in this Agreement or any other agreement or instrument to be executed and delivered by Buyer in connection herewith; (b) the Assumed Liabilities; and (c) all

liabilities, claims and obligations arising out of the conduct of the Business by Buyer following the Closing Date.

**7.4 Indemnification Procedure.** Upon receipt of notice of any action, suit, proceeding, claim, demand or assessment (collectively, "Action") which might give rise to an indemnification claim pursuant to Section 7.2 or 7.3 hereof, the party entitled to seek indemnification ("Indemnitee") shall promptly give written notice thereof to the other party or parties ("Indemnitor"), indicating the nature of the Action, the basis therefor, the amount of the claim (if known and quantifiable) and a reference to the provision of this Agreement or any document or other agreement delivered pursuant to this Agreement to which such claim for indemnification is made; provided, however, that failure to so notify Indemnitor shall not relieve Indemnitor from any liability which it may have on account of the Action, except to the extent Indemnitor shall have been prejudiced by such failure. Indemnitee shall provide Indemnitor with reasonable access to its books and records for the purpose of allowing Indemnitor an opportunity to verify any such claim for Damages. In addition to such notice, a claim for indemnification may, at the option of Indemnitee, be asserted as soon as any Action has been asserted by a third party in writing, regardless of whether actual harm has been suffered or out-of-pocket expenses incurred, provided that Indemnitee shall have reasonably determined that it may be liable or shall otherwise incur losses, damages or costs in respect of the Action. Promptly after a claim is made for which Indemnitee seeks indemnification, and subject to the condition that the Indemnitor acknowledges in writing its obligation to indemnify Indemnitee in full for the Action, Indemnitee shall permit Indemnitor, at Indemnitor's option (to be exercised by Indemnitor in writing within 20 days after receiving Indemnitee's written notice of the Action) and expense, to assume the complete defense of the Action with full authority to conduct such defense and, after consultation with Indemnitee, to settle or otherwise dispose of the same (except as hereinafter provided), and Indemnitee will cooperate fully in such defense; provided that if Indemnitor is Seller and/or Member, then such Indemnitor shall not have the right to defend or direct the defense of any such Action (a) in the event the amount of Damages in respect of such Action (and all other pending Actions) could be reasonably expected to exceed an amount for which Indemnitor may be obligated to indemnify Indemnitee hereunder, (b) the Action is asserted directly by or on behalf of a person that is a customer or supplier of the Business or (c) the Action seeks an injunction or other equitable relief against Indemnitee. Indemnitor will not, in defense of any such Action, except with the prior written consent of Indemnitee (which consent shall not be unreasonably withheld), consent to the entry of any judgment or enter into any settlement in respect thereof. If within the aforesaid 20 day period Indemnitor exercises its option to assume the defense of such Action, Indemnitor shall not be liable to Indemnitee in respect of legal and other expenses subsequently incurred by Indemnitee in connection with the defense thereof, and further the Indemnitor shall have no indemnification obligations with respect to such Action which shall be settled by Indemnitee without the prior written consent of Indemnitor (which consent shall not be unreasonably withheld). As to any Actions with respect to which Indemnitor is not entitled to assume the defense or Indemnitor does not exercise its option to assume the defense, Indemnitee may assume the defense and Indemnitee will afford Indemnitor an opportunity to participate in such defense, at Indemnitor's own cost and expense, and Indemnitee will not settle or otherwise dispose of any of the same without the prior written consent of Indemnitor (which consent shall not be unreasonably withheld). Indemnitor shall make payments to Indemnitee, to the extent required by the provisions hereof, with respect to any Action of a third party as follows: (i) with respect to out-of-pocket expenses of Indemnitee, on demand as incurred; and (ii) with respect to amounts owed to a third party, to the extent not

paid directly to such third party by Indemnitor, on demand at the time of payment by Indemnitee to such third party.

**7.5 Threshold and Cap.** Notwithstanding anything contained in this Section 7 to the contrary, an Indemnitor shall not have any liability for indemnification pursuant to Section 7.2(a) or 7.3(a) hereof, as applicable, unless and until, in each case, the amount of the total Damages for which Indemnitor would otherwise be liable exceeds \$27,500 in the aggregate (the "Threshold Amount"), in which case Indemnitor shall be responsible for all Damages pursuant to Section 7.2(a) or 7.3(a), as applicable, from the first dollar, up to the Cap Amount (as defined below); provided, however, that the Threshold Amount shall not apply to (a) breaches of any of the Fundamental Seller Representations or the Fundamental Buyer Representations, (b) the failure of Buyer to pay the Purchase Price, in full, in accordance with the terms and conditions of this Agreement, or (c) any fraud, willful misconduct, or intentional misrepresentation by Seller or Buyer. The aggregate indemnification obligations of an Indemnitor pursuant to Section 7.2(a) or 7.3(a) hereof, as applicable, shall be subject to a maximum liability equal to \$650,000 (the "Cap Amount"); provided, however, that the Cap Amount shall not apply to (i) breaches of any of the Fundamental Seller Representations or the Fundamental Buyer Representations, (ii) the failure of Buyer to pay the Purchase Price, in full, in accordance with the terms and conditions of this Agreement, or (iii) any fraud, willful misconduct, or intentional misrepresentation by Seller or Buyer.

**7.6 Materiality Limitation.** Notwithstanding anything contained in this Agreement to the contrary, for purposes of calculating any Damages attributable to a breach of any representation or warranty set forth in this Agreement or any other agreement or instrument to be executed by the parties in connection and not to the determination of whether or not there has been a breach, the terms "Material Adverse Effect", "material adverse effect", "material", "materially" or other terms of a similar nature, to the extent contained in such representations or warranties, shall be given no effect and shall be disregarded in their entirety.

**7.7 Tax Treatment of Indemnification Payments.** All indemnification payments under Section 7.2 or 7.3 hereof shall be deemed to be and treated as, to the extent permitted by applicable Law, adjustments to the Purchase Price.

**7.8 Indemnity Payment Adjustments.** An Indemnitee shall use commercially reasonable efforts to collect the proceeds of any applicable insurance policies which would have the effect of reducing any Damages. The amount of any Damages subject to indemnification under this Section 7 shall be reduced by the amounts actually recovered by Indemnitee under applicable insurance policies (net of the total cost of any recovery); provided, however, that an Indemnitee shall not be required to first pursue such insurance recovery prior to obtaining recovery from an Indemnitor hereunder with respect to claims related to such Damages (net, without duplication, of (a) any increase in premiums, (b) retroactive premiums, (c) premium adjustments or (d) any deductible or retention amounts incurred in obtaining such recovery), and if Indemnitee receives such insurance proceeds after the settlement of any indemnification claim under this Section 7, Indemnitee shall refund to Indemnitor the amount of such insurance proceeds, up to the amount received in connection with such indemnification claim (net of the total cost of any such recovery).



## SECTION 8 CLOSING

**8.1 Closing.** The consummation of the transaction contemplated hereby (the "Closing") shall take place on the execution hereof (the "Closing Date") at such location and at such time as the parties shall mutually agree upon, and all actions contemplated in this Agreement to occur on the Closing Date shall be deemed to occur simultaneously and be effective at the end of the business day. Possession of the Assets shall be given to Buyer as of the Closing.

**8.2 Seller's Closing Documents.** Seller shall deliver or cause to be delivered to Buyer at Closing:

- (a) Bill of Sale, in the form attached as Exhibit C, executed by Seller.
- (b) Assignment and Assumption Agreement, in the form attached hereto as Exhibit D, executed by Seller.
- (c) Any additional instruments of assignment and transfer which are necessary to transfer any Intellectual Property to Buyer, including all documents of assignment and transfer required by the United States Patent Office, the United States Copyright Office or other applicable Governmental Authority.
- (d) Seller shall have delivered or made available, or caused to have been delivered or made available, to Buyer all Business Records.
- (e) Certificate signed by the Secretary of Seller certifying that the resolutions authorizing the execution, delivery and performance of this Agreement by Seller were adopted by all necessary action of Seller.
- (f) Certificate of Good Standing of Seller dated as of a date not more than 20 days prior to the Closing Date, issued by the Ohio Secretary of State.
- (g) All other documents and consents necessary for Seller to carry out its obligations under this Agreement.

**8.3 Buyer's Closing Documents.** Buyer shall deliver or cause to be delivered to Seller at Closing:

- (a) Cash (by bank check or wire transfer of immediately available funds) to Seller in the amount of the Closing Payment.
- (b) Assignment and Assumption Agreement, in the form attached hereto as Exhibit D, executed by Buyer.
- (c) Certificate signed by the Secretary of Buyer certifying that the resolutions authorizing the execution, delivery and performance of this Agreement by Buyer were adopted by all necessary action of Buyer.

- (d) Certificate of Good Standing of Buyer dated as of a date not more than 20 days prior to the Closing Date, issued by the Delaware Secretary of State.
- (e) All other documents and consents necessary for Buyer to carry out its obligations under this Agreement.

## SECTION 9 MISCELLANEOUS

**9.1 Further Assurances.** The parties agree without expense to the other party to furnish upon request to each other such further information, to execute and deliver to each other such other documents and to do such other acts and things, all as the other party may reasonably request for the purpose of carrying out the intent of this Agreement and the documents referred to in this Agreement. Seller and Buyer shall cooperate and make available to each other, as reasonably requested, all information, records or documents necessary to prepare or review any tax returns, financial statements, reports or any calculation required pursuant to this Agreement.

**9.2 Expenses of the Transaction.** Each of the parties hereto shall bear its own fees and expenses incident to this Agreement and the transactions contemplated hereby. Seller and Buyer each agree that neither party will assume any liability to pay fees and expenses of the other in connection with the transaction contemplated hereunder, except as specifically set forth herein.

**9.3 Defaults.** If a party hereto fails to perform any of the covenants, conditions, or agreements contained in this Agreement which are to be performed by such party, or if such party's representations or warranties are determined to be materially false, then the other party may elect to enforce any remedy available to it at law or in equity subject to any applicable restrictions or limitations set forth in this Agreement.

**9.4 Remedies Cumulative.** Subject to any applicable restrictions or limitations set forth in this Agreement, each right, power and remedy of a party hereto provided in this Agreement or now or hereafter existing, whether legal or equitable and whether provided by statute or otherwise, shall be cumulative and concurrent and shall be in addition to every other right, power or remedy of such party, and the exercise of any one or more of such rights, powers or remedies shall not preclude the simultaneous or later exercise of any or all such other rights, powers or remedies.

**9.5 Waiver.** Any term or condition of this Agreement may be waived in writing at any time by a party hereto entitled to the benefit thereof, and any such term or condition may be modified at any time, only by an agreement in writing executed by a duly authorized officer of each of the parties hereto. No delay or failure on the part of any party in exercising any rights hereunder, and no partial or single exercise thereof, shall constitute a waiver of such rights or of any other rights hereunder.

**9.6. Severability.** If any provision of this Agreement shall be held unenforceable, invalid or void to any extent for any reason, such provision shall remain in full force and effect

to the maximum extent allowable, if any, and the enforceability or validity of the remaining provisions of this Agreement shall not be affected thereby.

**9.7 Entire Agreement; Amendment.** Except as expressly set forth herein or in an instrument in writing signed by the party to be bound thereby which makes reference to this Agreement, this Agreement together with all exhibits, schedules, agreements, instruments and other documents to be delivered hereunder, embodies the entire agreement in relation to the subject matter hereof, and no representations, warranties, covenants, understandings or agreements, or otherwise in relation thereto, exist between or among the parties hereto. This Agreement may not be amended or modified except by a written instrument signed by the parties hereto.

**9.8 Binding Effect.** This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, personal representatives, successors and assigns.

**9.9 Notices.** All notices and other communications required or permitted under this Agreement shall be deemed to have been duly given and made if in writing and if served either by personal delivery to the party for whom intended (which shall include delivery by Federal Express or similar service) or three business days after being deposited in the United States mails, postage prepaid, registered or certified, return receipt requested, addressed as follows:

- (a) If to Seller: Washington Laboratories, LLC  
1922 26<sup>th</sup> Street NE  
Canton, OH 44705  
Attn: Larry W. Harris

with a copy to: (which shall not constitute notice):

Krugliak, Wilkins, Griffiths & Dougherty, CO., LPA  
4775 Munson Street, NW  
P.O. Box 36963  
Canton, OH 44735  
Attn: Christopher Hunt, Esq.

- (b) If to Buyer Mace Security International, Inc.  
4400 Carnegie Avenue  
Cleveland, OH 44103  
Attn: John McCann, CEO

**9.10 Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute the same agreement, and the execution of a counterpart of the signature page to this Agreement shall be deemed the execution of a counterpart of this Agreement. The delivery of this Agreement may be made by facsimile or portable document format (pdf), and such signatures shall be treated as original signatures for all applicable purposes.

**9.11 Interpretation.** The section headings herein are for convenience only and shall not affect the construction hereof. As used in this Agreement and required by the context, the singular and plural shall be deemed to include all genders; words importing persons shall be construed broadly to mean any natural person, corporation, limited liability company, partnership, proprietorship, trust, joint venture or any other legal entity of whatever nature; and the terms "herein," "hereof" and "hereunder" or other similar terms, refer to this Agreement as a whole and not only to the particular sentence, subsection or section in which any such term may be employed. Whenever in this Agreement the word "including" is used, it shall be deemed to be for purposes of identifying only one or more of the possible alternatives, and the entire provision in which such word appears shall be read as if the phrase "including without limitation" were actually used in the text.

**9.12 Governing Law; Jurisdiction.** This Agreement and any controversy related to or arising, directly or indirectly, out of, caused by or resulting from this Agreement shall be governed in all respects, including as to validity, interpretation and effect, by the internal Laws of the State of Ohio, without giving effect to the conflict of laws rules thereof to the extent that the application of the Law of another jurisdiction would be required thereby. The Parties hereby irrevocably submit to the exclusive jurisdiction of the State of Ohio, Court of Common Pleas, Cuyahoga County, Ohio and the federal courts of the United States of America located in the State of Ohio, Northern District of Ohio, solely in respect of the interpretation and enforcement of the provisions of this Agreement and of the documents referred to in this Agreement, and hereby waive, and agree not to assert, as a defense in any action, suit or proceeding for the interpretation or enforcement hereof or of any such document, that it is not subject thereto or that such action, suit or proceeding may not be brought or is not maintainable in said courts or that the venue thereof may not be appropriate or that this Agreement or any of such documents may not be enforced in or by said courts, and the parties hereto irrevocably agree that all claims with respect to such action or proceeding shall be heard and determined in such an Ohio State or federal court. The Parties hereby consent to and grant any such court jurisdiction over the person of such Parties and over the subject matter of any such dispute.

*[Signature Page Follows]*

EXECUTED as of the date first written above.

**SELLER:**

**Washington Laboratories, LLC**

By: Larry W. Harris  
Larry W. Harris, President

**MEMBER:**

Larry W. Harris  
Larry W. Harris

**BUYER:**

**Mace Security International, Inc.**

By: \_\_\_\_\_  
John McCann, Chief Executive Officer and President

EXECUTED as of the date first written above.

**SELLER:**

**Washington Laboratories, LLC**

By: \_\_\_\_\_

**Larry W. Harris, President**

**MEMBER:**

\_\_\_\_\_

**Larry W. Harris**

**BUYER:**

**Mace Security International, Inc.**

By:  \_\_\_\_\_

**John McCann, Chief Executive Officer and President**