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Debtor in Possession

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9 **UNITED STATES BANKRUPTCY COURT**
10 **CENTRAL DISTRICT OF CALIFORNIA**
11 **NORTHERN DIVISION**

12 In re:
13 **CHANNEL TECHNOLOGIES GROUP,**
14 **LLC,¹**
15 Debtor.

Case No.: 9:16-bk-11912-PC

Chapter 11

**NOTICE OF MOTION AND MOTION FOR AN
ORDER AUTHORIZING DEBTOR TO ENTER
INTO ASSET PURCHASE AGREEMENT AND
SELL PROPERTY FREE AND CLEAR
THROUGH PRIVATE SALE TO SONATECH,
LLC; MEMORANDUM OF POINTS AND
AUTHORITIES; DECLARATION OF DAVID
TIFFANY**

Requested Hearing:

Date: March 22, 2017

Time: 10:00 a.m.

Place: Courtroom "201"

1415 State Street

Santa Barbara, CA 93101

Judge: Hon. Peter H. Carroll

23 **TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE, THE OFFICE OF THE**
24 **UNITED STATES TRUSTEE, THE 20 LARGEST UNSECURED CREDITORS, BLUE**
25 **WOLF CAPITAL FUND II, L.P., AND OTHER PARTIES IN INTEREST:**

26 **PLEASE TAKE NOTICE** that Channel Technologies Group, LLC, the above-captioned
27 debtor and debtor in possession ("CTG" or the "Debtor"), hereby moves (the "Motion") the Court

28 ¹ The last four digits of the Debtor's Tax Identification Number are: 0460. The Debtor's mailing address is: 879 Ward Drive, Santa Barbara, CA 93111.

1 for entry of an order substantially in the form attached hereto as **Exhibit “A,”** (a) authorizing the
2 Debtor to enter into that certain *Asset Purchase Agreement* dated February 22, 2017 (the “APA”), a
3 copy of which is attached hereto as **Exhibit “B,”**² between the Debtor, as seller, and Sonatech, LLC,
4 as buyer (the “Buyer”); (b) authorizing the private sale (the “Sale”) of the assets set forth in the APA
5 (the “Property”) to Buyer free and clear of all liens, claims, rights, encumbrances, and other interests
6 (“Interests”) pursuant to sections 105, 363(b), and 363(f) of the Bankruptcy Code and Federal Rules
7 of Bankruptcy Procedure 6004(f)(1), for cash consideration in the amount of \$328,750 (the
8 “Purchase Price”); and (c) granting related relief.

9 **PLEASE TAKE FURTHER NOTICE** that, pursuant to the APA, any applicable sales,
10 purchase, transfer, stamp, documentary stamp, use or similar taxes which may be payable by reason
11 of the sale or transfer of the Property shall be borne and paid by the Buyer.

12 **PLEASE TAKE FURTHER NOTICE** that the Motion is based on and supported by this
13 Notice, the attached Memorandum of Points and Authorities, the attached Declaration of David
14 Tiffany, Chief Restructuring Officer of the Debtor (the “Tiffany Declaration”), and the record in this
15 case. In addition, the Debtor requests that the Court take judicial notice of all documents filed with
16 the Court in this case.

17 **PLEASE TAKE FURTHER NOTICE** that a hearing on the Motion, if necessary, will be
18 held on March 22, 2017 at 10:00 a.m. in Courtroom 201, 1415 State Street, Santa Barbara, California
19 93101, before the Honorable Peter H. Carroll, for the Court to consider the Motion.

20 **PLEASE TAKE FURTHER NOTICE** that, pursuant to Local Bankruptcy Rule 9013-1(f),
21 if you wish to oppose the Motion, you must file a written response with the Court and serve a copy
22 of it upon the undersigned counsel no later than fourteen (14) days prior to the hearing on the
23 Motion. The failure to properly file and serve an opposition may be deemed consent to the relief
24 requested in the Motion or a waiver of any right to oppose the Motion.

25 **PLEASE TAKE FURTHER NOTICE** that if a response is not timely filed and served, the
26 Debtor will request that the court grant the relief requested in the Motion without further notice or

27 _____
28 ² The APA has been filed without schedules due to certain confidentiality restrictions. The Debtor will provide copies to interested parties upon request, subject to an appropriate non-disclosure agreement. The Debtor reserves the right to withhold schedules in whole or in part if the Debtor believes that they are being sought for an improper purpose.

1 hearing.

2 **PLEASE TAKE FURTHER NOTICE** that if a response is timely filed and served upon the
3 Debtor's counsel, the Court, in its discretion, may treat the initial hearing as a status conference if it
4 determines that the Motion involves disputed factual issues or will require presentation of substantial
5 evidence or argument.

6 **WHEREFORE**, the Debtor respectfully requests that this Court enter an order
7 (a) authorizing the Debtor to enter into the APA; (b) authorizing the Sale of the Property to Buyer
8 free and clear of all Interests; and (c) granting such other and further relief as is just and proper.

9

10 Dated: March 1, 2017

PACHULSKI STANG ZIEHL & JONES LLP

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By /s/ Jeffrey W. Dulberg
Jeffrey W. Dulberg

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Attorneys for Channel Technologies
Group, LLC, Debtor and Debtor in
Possession

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1 **MEMORANDUM OF POINTS AND AUTHORITIES**

2 **I.**

3 **STATEMENT OF FACTS**

4 **A. Jurisdiction and Venue**

5 This Court has jurisdiction over this Motion pursuant to 28 U.S.C. §§ 157 and 1334. This is
6 a core proceeding pursuant to 28 U.S.C. § 157(b)(2). Venue is proper pursuant to 28 U.S.C. §§ 1408
7 and 1409.

8 **B. Background**

9 On October 14, 2016 (the "Petition Date"), the debtor filed a voluntary petition for relief
10 under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"). The Debtor
11 continues to operate its business and manages its affairs as a debtor in possession pursuant to
12 sections 1107(a) and 1108 of the Bankruptcy Code. No trustee, examiner, or committee has been
13 appointed in this chapter 11 case (the "Case").

14 The Debtor designs and manufactures piezoelectric ceramics, transducers, sonar equipment
15 and other related products sold primarily to military, commercial, and industrial customers in the
16 United States and internationally. Founded in 1959, the Debtor is based in Santa Barbara, California
17 and previously operated a second manufacturing site with respect to its MSI subdivision (the assets
18 of which were previously sold in this case) in Littleton, Massachusetts. The Debtor supplies its
19 products to a variety of end-users, including the U.S. Navy and energy services companies. Among
20 the Debtor's customers are some of the largest United States defense contractors, including Northrop
21 Grumman, Lockheed Martin and Raytheon.

22 Certain long-term supply contracts are onerous to the Debtor and have negatively impacted
23 and continue to negatively impact the Debtor's cash flow. Despite efforts to consensually address
24 the problematic aspects of certain of its contracts with the counterparties through negotiations, prior
25 to the Petition Date, with some minor exceptions, the Debtor was unable to stop the significant
26 negative impact of such contracts on the Debtor's business. Although customer demand for its
27 products and services remains substantial, the Debtor has been unable to obtain necessary further
28 outside funding to complete certain long-term contracts (as they currently exist) and invest in new

1 equipment and research and development.

2 The Debtor commenced the Case to expeditiously pursue a potential sale of some or all of the
3 Debtor's business to one or more third parties and an orderly wind down of the remaining business.

4 **C. The Property**

5 The Property consists of certain equipment, materials and other assets specifically described
6 on the schedules attached to the APA and related to certain classified projects of the Debtor's
7 Sonatech division for the U.S. Navy. The Buyer is owned by certain non-insider employees of the
8 Debtor that have requisite security clearance to work on the projects.

9 The Debtor has conducted a UCC search of purported lienholders of the Property in
10 conjunction with the proposed Sale of the Property. The only party asserting a lien on the Property
11 of which the Debtor is aware is Blue Wolf Capital Fund II, L.P. ("Blue Wolf").

12 **D. The APA**

13 The key terms of the APA are summarized below.¹ The description below only summarizes
14 certain provisions of the APA as a convenience to the Court and parties in interest, and the terms of
15 the APA control in the event of any inconsistency.

- 16 a. Purchase Price. The consideration to be paid by Buyer to the Debtor for the
17 Property shall be cash in an amount equal to three hundred twenty five
18 thousand dollars (\$328,750.00) (the "Purchase Price"), paid in the following
installments: (i) \$50,000 concurrent with the mutual execution and delivery of
this APA; and (ii) the balance at the closing.
- 19 b. Assumption of Liabilities. Effective as of the closing, Buyer shall assume all
20 of the following: (i) without in any way limiting Buyer's obligations to bear
and pay any and all cure amounts that are payable with respect to any period
21 prior to the closing and are identified on Schedule 2.2.1 to the APA as "cure
amounts" being assumed by Buyer, all liabilities and obligations of the Debtor
22 first arising or accruing after the closing under the leases and contracts to be
assumed and assigned under the APA, and (ii) all additional liabilities and
23 obligations set forth or described on Schedule 2.2.1 -(ii) to the APA
(collectively, the "Assumed Liabilities").
- 24 c. Sales, Use, and Other Taxes. Any sales, purchase, transfer, stamp,
25 documentary stamp, use or similar taxes under the laws of the states in which
any portion of the Property is located, or any subdivision of any such state, or
26 under any federal law or the laws or regulations of any federal agency or
authority, which may be payable by reason of the sale or transfer of the
27 Property under the APA shall be borne and paid by Buyer. Rent, current

28 ¹ Capitalized terms used in this section but not otherwise defined herein shall have the meanings ascribed to them in the APA.

1 taxes, prepaid advertising, utilities and other items of expense (including,
2 without limitation, any prepaid insurance, maintenance, tax or common area
3 or like payments) shall be prorated between Debtor and Buyer as of the
4 closing.

- 5
- 6 d. Free and Clear. The Property shall be transferred to Buyer free and clear of
7 all liens, security interests, claims and encumbrances (other than the lien of
8 current taxes not yet payable with respect to any Property).
- 9 e. “AS IS” Transaction. The Buyer acknowledges and agrees that, except only
10 as set forth in the APA, the Debtor neither makes nor has made any
11 representations or warranties whatsoever, express or implied, with respect to
12 any matter relating to the Property. Without in any way limiting the foregoing,
13 Debtor disclaims any warranty (express or implied) of merchantability or
14 fitness for any particular purpose as to any portion of the Property. The Buyer
15 has conducted an independent inspection and investigation of the Property and
16 all such other matters relating to or affecting the Property as Buyer deemed
17 necessary or appropriate and Buyer is acquiring the Property based solely
18 upon such independent inspections and investigations.
- 19 f. Deadlines. The APA provides that the deadline to obtain approval of the Sale
20 and APA and to close the Sale is March 31, 2017.
- 21 g. Restriction on Competition By Buyer Post-Closing. For a period of one (1)
22 year after the Closing Date, the Buyer shall not engage in the direct marketing
23 or direct selling to persons who are Customers (as defined in Section 11.18 of
24 the APA) of the Debtor and/or distribution of any transducers of the type
25 currently produced or proposed to be produced by the Debtor, nor shall Buyer
26 use any of the Debtor’s Intellectual Property Rights directly or indirectly to
27 reverse engineer, reverse assemble, decompile or disassemble any Debtor
28 product that is not provided to Buyer in source code.
- h. Employee Confidentiality and Proprietary Rights Agreements. Closing is
conditioned upon each of the Transferred Employees (as defined in Section
10.1 of the APA) having executed and delivered to the Debtor a
Confidentiality and Proprietary Rights Agreement (in favor of the Debtor with
respect to confidential, proprietary and other information and assets of the
Debtor not included in the Property).
- i. Sublease. Closing is conditioned upon Buyer and the Debtor, as Sublessee
and Sublessor, respectively, having entered into a sublease relating to a
portion of the Sonatech facility.
- j. Proposed Novation of Navy Contracts. (i) It is the intent of the parties to
transfer to and vest in Buyer all of the Debtor’s right, title, and interest in and
to the Contract Nos. 13G5232 and N00167-14-D-0003, each between the
Debtor and the United States Navy (the “Navy Contracts”), and (ii) at the
request of the Navy, the Parties are effecting such transfer by novation rather
than by the Debtor’s assumption of such Navy Contracts and assignment
thereof to Buyer, and (b) in furtherance of the foregoing, the Debtor covenants
and agrees that, the Debtor will not (and will not seek to) convey, transfer or
assign its right, title and interest in and to the Navy Contracts to any third
party other than to a successor of the Debtor which is bound by the preceding
covenants. As further provided in section 11.10 of the APA, any such
novation must fully release the Debtor with respect to the Navy Contracts and
may not impose further liability or material cost on the Debtor.

1 Notwithstanding any other provision of the APA to the contrary, nothing in
2 the APA or other related documents implementing the Sale, authorizes the
3 transfer or assignment of any licenses, authorizations, guaranties, leases,
4 contracts, easements, rights of way, agreements or other interests of the Navy
5 Contracts without compliance with all applicable legal requirements under
6 non-bankruptcy law governing such transfers or assignments. The United
7 States' rights to offset or recoup any amounts due under, or relating to, any
8 Federal Interests are expressly preserved. Further, the Debtor's rights and
9 defenses with respect to the United States' offset or recoupment of any
10 amounts due under, or relating to, any Federal Interests are expressly
11 preserved.

12 II.

13 ARGUMENT

14 A. The Proposed Sale of the Property Should be Approved Under Section 363(b) of the 15 Bankruptcy Code

16 A trustee, after notice and a hearing, may use, sell, or lease property, other than in the
17 ordinary course of business. 11 U.S.C. § 363(b)(1). A trustee's application of his or her sound
18 business judgment in the use, sale, or lease of property is subject to great judicial deference. *See,*
19 *e.g., In re Moore*, 110 B.R. 924 (Bankr. C.D. Cal. 1990); *In re Canyon P'ship*, 55 B.R. 520 (Bankr.
20 S.D. Cal. 1985); *see also Walter v. Sunwest Bank (In re Walter)*, 83 B.R. 14, 19-20 (B.A.P. 9th Cir.
21 1988) (“[T]here must be some articulated business justification for using, selling, or leasing the
22 property outside the ordinary course of business . . . whether the proffered business justification is
23 sufficient depends on the facts of the case. As the Second Circuit held in *Lionel*, the bankruptcy
24 judge should consider all salient factors pertaining to the proceeding and, accordingly, act to further
25 the diverse interests of the debtor, creditors and equity holders, alike.”).

26 In interpreting section 363(b)(1) of the Bankruptcy Code, courts have held that a transaction
27 involving property of the estate generally should be approved where the debtor or trustee can
28 demonstrate “some articulated business justification for using, selling, or leasing property outside of
the ordinary course of business.” *In re Continental Airlines, Inc.*, 780 F.2d 1223, 1226 (5th Cir.
1986); *accord In re Lionel Corp.*, 722 F.2d 1063, 1071 (2d Cir. 1983); *Walter*, 83 B.R. at 19-20; *In*
re Curlew Valley Assocs., 14 B.R. 506, 513-14 (Bankr. D. Utah 1981). Among other factors, courts
should consider the consideration to be paid, the financial condition and needs of the debtor, the
qualifications of the buyer, and whether a risk exists that the assets proposed to be sold would

1 decline in value if left in the debtor's possession. *See Equity Funding Corp. of Am. v. Fin. Assocs.*
2 (*In re Equity Funding Corp.*), 492 F.2d 793, 794 (9th Cir. 1974) (affirming trial court's finding that
3 the proposed sale of the debtor's assets would be in the best interest of the estate in light of
4 impending deterioration of market value of debtor's assets).

5 The Debtor believes that, as a result of the marketing efforts that have been undertaken as
6 described below, and particularly given the circumstances, the Sale will provide maximum value to
7 the Debtor under the current circumstances. The fairness and reasonableness of the consideration to
8 be paid by the Buyer is demonstrated by the marketing efforts that the Debtor has undertaken,
9 followed by a fair and reasonable sale process. The sale of the Property is supported by sound
10 business reasons and is in the best interests of the Debtor and its estate. Accordingly, the Debtor
11 requests approval under Bankruptcy Code section 363(b) of the Sale to the Buyer, as set forth herein.

12 **B. The Buyer Acted in Good Faith in Connection With the Sale**

13 The Sale was negotiated in good faith, at arm's length and, to the best of the Debtor's
14 information and belief, without collusion or fraud of any kind. The Debtor's chief restructuring
15 officer and his assistants provided by CR3 Partners, LLC ("CR3") have been marketing the Debtor's
16 assets to a number of parties since October. The Debtor has received various offers for different
17 portions of its assets. Based on this process, the Debtor believes that the Buyer is willing to pay the
18 most for the Property. As noted above, the Property consists of certain equipment, materials and
19 other assets primarily related to certain classified projects of the Debtor's Sonatech division for the
20 U.S. Navy. The Buyer is owned by certain non-insider employees of the Debtor that have requisite
21 security clearance to work on the projects. Realistically in the short term the Buyer is best
22 positioned to pay, and is paying, the highest and best value for the Property. Therefore, the Buyer's
23 bid was selected for the following reasons, among others: (a) the Buyer offered fair consideration;
24 (b) the Buyer's demonstrated ability to close the transaction promptly; (c) the Buyer is already
25 familiar with the Debtor's assets and operations due to its having been long-time employees of the
26 Debtor; and (d) the Property is program specific, meaning that the assets constituting the Property
27 are not general assets that are easily used in a variety of functions or programs, but rather is of
28 greatest value to the Buyer. The Debtor initially approached the Buyer about a potential transaction

1 in December 2016. Once the parties agreed on principal terms, the parties (each represented by
2 counsel) negotiated the APA, resulting in substantial give and take by both parties. Accordingly,
3 this Court should find that Buyer acted in good faith within the meaning of section 363(m) of the
4 Bankruptcy Code. *See generally Ewell v. Diebert (In re Ewell)*, 958 F.2d 276, 280 (9th Cir. 1992);
5 *Marin v. Coated Sales, Inc., (In re Coated Sales, Inc.)*, No. 89 Civ. 3704 (KMW), 1990 WL 212899
6 (S.D.N.Y. Dec. 13, 1990) (holding that to show lack of good faith, a party must demonstrate “fraud,
7 collusion, or an attempt to take grossly unfair advantage of other bidders”); *see also In re Sassoon*
8 *Jeans, Inc.*, 90 B.R. 608, 610 (S.D.N.Y. 1988) (quoting *In re Bel Air Assocs., Ltd.*, 706 F.2d 301,
9 305 (10th Cir. 1983)); *In re Pisces Leasing Corp.*, 66 B.R. 671, 673 (E.D.N.Y. 1986) (examining the
10 facts of each case, concentrating on the “integrity of [an actor’s] conduct during the sale
11 proceedings” (quoting *In re Rock Indus. Machinery Corp.*, 572 F.2d 1195, 1998 (7th Cir. 1978)).

12 **C. The Sale of the Property Free and Clear of Liens, Claims, And Interests Pursuant to 11**
13 **U.S.C. § 363(f) Should be Approved**

14 The Debtor requests that the Court approve the sale of the Property free and clear of all
15 Interests, with any such Interests to attach to the Sale Proceeds with the same validity, enforceability,
16 and priority, if any, as existed with respect to the Property as of the date of the commencement of
17 this chapter 11 case.

18 Section 363(f) of the Bankruptcy Code expressly authorizes a debtor to sell property outside
19 the ordinary course of business “free and clear of any interest in such property of an entity” if any
20 one of the five following conditions is met:

- 21 1. applicable non-bankruptcy law permits sale of such property free and clear of
22 such interest;
- 23 2. such entity consents;
- 24 3. such interest is a lien and the price at which such property is to be sold is
25 greater than the aggregate value of all liens on such property;
- 26 4. such interest is in bona fide dispute; or
- 27 5. such entity could be compelled, in a legal or equitable proceeding, to accept a
28 money satisfaction of such interest.

1 11 U.S.C. § 363(f). Because section 363(f) of the Bankruptcy Code is written in the disjunctive, any
2 one of these five conditions provides authority to sell the Property free and clear of liens. *See*
3 *Citicorp Homeowners Servs., Inc. v. Elliot (In re Elliot)*, 94 B.R. 343, 345 (E.D. Pa. 1988).

4 As discussed above, the only Interests encumbering the Property of which the Debtor is
5 aware is the lien of Blue Wolf.

6 If the holder of a lien or claim receives notice of the sale and fails to object, the Property may
7 be sold free and clear of that lien or claim under section 363(f)(2) of the Bankruptcy Code. Thus, a
8 sale free of Interests is permitted.

9 **D. The Court Should Authorize the Sale of the Property Pursuant to a Private Sale Under**
10 **Bankruptcy Rule 6004(f)(1)**

11 Bankruptcy Rule 6004(f)(1) authorizes the Court to approve the sale of estate property in
12 connection with a private sale (“All sales not in the ordinary course of business may be by private
13 sale or by public auction”). The circumstances of this case justify sale of the Property through a
14 private sale to Buyer. As discussed above, the Property is specialized for relatively narrow
15 applications that are mission critical for the Buyer’s customers. The Debtor believes the Buyer will
16 pay the highest and best consideration for the Property and the offer by Buyer as set forth in the
17 APA is the best offer received, or expected by the Debtor to be received, for such assets.

18 **E. Waiver of Bankruptcy Rule 6004(a) and 6004(h)**

19 To implement the foregoing successfully, the Debtor requests that the Court enter an order
20 providing that notice of the relief requested herein satisfies Bankruptcy Rule 6004(a) and that the
21 Debtor has established cause to exclude such relief from the 14-day stay period under Bankruptcy
22 Rule 6004(h). The Buyer’s obligation to perform under the APA is conditioned upon entry of an
23 order approving the transaction and the closing taking place by March 31, 2017. As discussed
24 above, the Debtor believes that the consideration offered by the Buyer is the most that the Debtor is
25 likely to receive for the Property. Accordingly, the Debtor requests that Rule 6004(h) be waived so
26 the Sale may be closed by the drop-dead date in the APA of March 31, 2017.

27 **F. Notice**

28 In accordance with the Court’s *Order Granting Emergency Motion Limiting Notice* [Dkt.

1 No. 62], entered October 20, 2016, a copy of this Motion has been given to the following parties or
2 their counsel, if known: (a) the Office of the United States Trustee, (b) the creditors appearing on the
3 list filed in accordance with Bankruptcy Rule 1007(d) by the Debtor, (c) the United States of
4 America by service to the Attorney General of the United States and the United States Attorney for
5 the Central District of California, (d) parties that have filed with the Court and served upon the
6 Debtor requests for notice of all matters in accordance with Bankruptcy Rule 2002(i), (e) Blue Wolf,
7 (f) the Buyer, and (g) other known parties that may assert an interest in the Property.

8 **III.**

9 **CONCLUSION**

10 WHEREFORE, the Debtor respectfully requests that the Court enter an order (a) authorizing
11 the Debtor to enter into the APA; (b) authorizing the Sale of the Property to Buyer free and clear of
12 all Interests; and (c) granting such other and further relief as is just and proper.

13 Dated: March 1, 2017

PACHULSKI STANG ZIEHL & JONES LLP

14 By /s/ Jeffrey W. Dulberg
15 Jeffrey W. Dulberg

16 Attorneys for Channel Technologies Group,
17 LLC, Debtor and Debtor in Possession
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DECLARATION OF DAVID TIFFANY

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2 I, David Tiffany, hereby declare that the following is true to the best of my
3 knowledge, information and belief:

4 1. I am a Director of CR3 Partners, LLC ("CR3"), an advisory firm with offices
5 in Dallas, Texas and other cities in the United States. As of the Petition Date, I am the Chief
6 Restructuring Officer of Channel Technologies Group, LLC, the above-captioned debtor and
7 debtor-in-possession ("CTG" or the "Debtor"). If I were called to testify as a witness in this matter,
8 I could and would competently testify to each of the facts set forth herein based upon my personal
9 knowledge, review of documents, or opinion. I am authorized to submit this Declaration on behalf
10 of the Debtor.

11 2. I submit this declaration (the "Declaration") in support of the Debtor's *Motion*
12 *for an Order Authorizing Debtor to Enter Into Asset Purchase Agreement and Sell Property Free*
13 *and Clear Through Private Sale to Sonatech, LLC* (the "Motion"). Except as otherwise indicated, all
14 statements in this Declaration are based upon my personal knowledge, my review of the Debtor's
15 books and records, relevant documents and other information prepared or collected by the Debtor's
16 employees, or my opinion based on my experience with the Debtor's operations and financial
17 condition. In making my statements based on my review of the Debtor's books and records, relevant
18 documents and other information prepared or collected by the Debtor's employees, I have relied
19 upon these employees accurately recording, preparing or collecting such documentation and other
20 information.

21 3. I and my assistants provided by CR3 Partners, LLC ("CR3") have been
22 marketing the Debtor's assets to a number of parties since October. The Debtor has received various
23 offers for different portions of its assets. Based on this process, the Debtor believes that Sonatech,
24 LLC (the "Buyer") is willing to pay the most for the Property. As noted above, the Property consists
25 of certain equipment, materials, contracts and other primarily related to certain classified projects of
26 the Debtor's Sonatech division for the U.S. Navy. The Buyer is owned by certain non-insider
27 employees of the Debtor that have requisite security clearance to work on the projects. Realistically
28 in the short term the Buyer is best positioned to pay, and is paying, the highest and best value for the

1 Property. Therefore, the Buyer's bid was selected for the following reasons, among others: (a) the
2 Buyer offered fair consideration; (b) the Buyer's demonstrated ability to close the transaction
3 promptly; (c) the Buyer is already familiar with the Debtor's assets and operations due to its having
4 been long-time employees of the Debtor; and (d) the Property is program specific, meaning that the
5 assets constituting the Property are not general assets that are easily used in a variety of functions or
6 programs, but rather is of greatest value to the Buyer. The Debtor initially approached the Buyer
7 about a potential transaction in December 2016. Once the parties agreed on principal terms, the
8 parties (each represented by counsel) negotiated the APA, resulting in substantial give and take by
9 both parties.

10 4. The Sale was negotiated in good faith, at arm's length and, to the best of the
11 Debtor's information and belief, without collusion or fraud of any kind. Accordingly, I believe that
12 Buyer acted in good faith within the meaning of section 363(m) of the Bankruptcy Code.

13 5. The Debtor has conducted a UCC search of purported lienholders of the
14 Property in conjunction with the proposed Sale of the Property. The only party asserting a lien on
15 the Property of which the Debtor is aware is Blue Wolf Capital Fund II, L.P. ("Blue Wolf").

16 6. The offer by Buyer as set forth in the APA is the best offer received for such
17 assets. To the best of my knowledge, neither the Debtor nor CR3 has been contacted by any
18 potential overbidder. In my business judgment, there are no viable alternative purchasers for the
19 Property.

20 7. The Buyer's obligation to perform under the APA is conditioned upon entry
21 of an order approving the transaction and the closing taking place by March 31, 2017, to ensure that
22 the Buyer can timely perform obligations to its customers. As discussed above, I believe that the
23 consideration offered by the Buyer is the most that the Debtor is likely to receive for the Property.

24 8. To the best of my knowledge and upon review, I am unaware of any claims of
25 the Debtor against the Buyer.

26 9. For the foregoing reasons, I believe that the Sale is supported by reasonable
27 business judgment and is in the best interests of the estate.
28

1 I declare under penalty of perjury under the United States of America that the foregoing is
2 true and correct.

3 Executed this 1 day of March, 2017 at Santa Barbara, California.

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5 _____
6 DAVID TIFFANY

PACHULSKI STANG ZIEHL & JONES LLP
ATTORNEYS AT LAW
LOS ANGELES, CALIFORNIA

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EXHIBIT A

Proposed Form of Order

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PACHULSKI STANG ZIEHL & JONES LLP
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8
9 **UNITED STATES BANKRUPTCY COURT**
10 **CENTRAL DISTRICT OF CALIFORNIA**
11 **NORTHERN DIVISION**

12 In re:
13 **CHANNEL TECHNOLOGIES GROUP,**
14 **LLC,¹**
15 Debtor.

Case No.: 9:16-bk-11912-PC

Chapter 11

**ORDER AUTHORIZING DEBTOR TO
ENTER INTO ASSET PURCHASE
AGREEMENT WITH AND SELL PROPERTY
FREE AND CLEAR THROUGH PRIVATE
SALE TO SONATECH, LLC**

Hearing

Date: March 22, 2017

Time: 10:00 a.m.

Place: Courtroom "201"

1415 State Street

Santa Barbara, CA 93101

Judge: Hon. Peter H. Carroll

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22 **THIS MATTER CAME BEFORE THE COURT** at the above-captioned date and time
23 before the Honorable Peter H. Carroll, United States Bankruptcy Judge, to consider the *Motion for*
24 *Order Authorizing Debtor to Enter Into Asset Purchase Agreement and Sell Property Free and*
25 *Clear Through Private Sale to Sonatech, LLC* [Dkt. No. ____] (the "Motion"), filed on March 1,
26 2017.² The Court having considered the Motion and the Declaration of David Tiffany in support

27
28 ¹ The last four digits of the Debtor's Tax Identification Number are: 0460. The Debtor's mailing address is: 879 Ward
Drive, Santa Barbara, CA 93111.

² Capitalized terms not defined herein shall take the meaning ascribed thereto in the Motion.

1 thereof, and finding that notice of the Motion was appropriate and sufficient and that no other notice
2 need be given, after due deliberation and sufficient cause appearing therefor

3 **THE COURT HEREBY FINDS AS FOLLOWS:**

4 A. This Court has jurisdiction to hear and determine the Motion pursuant to 28 U.S.C.
5 §§ 157 and 1334.

6 B. Venue of this case in this district is proper pursuant to 28 U.S.C. §§ 1408 and
7 1409(a).

8 C. Determination of the Motion is a core proceeding under 28 U.S.C. § 157(b)(2)(A),
9 (M) and (N).

10 D. The statutory predicates for the relief requested herein are section 363 of the
11 Bankruptcy Code and Bankruptcy Rules 2002 and 6004.

12 E. Proper, timely, adequate and sufficient notice of the Motion has been provided in
13 accordance with Sections 102(1) and 363 of the Bankruptcy Code and Bankruptcy Rules 2002 and
14 6004 and no other or further notice of the Motion is required.

15 F. The terms of the APA³ are fair and reasonable in all respects and the terms of the
16 Order shall not modify the terms of the APA except as specifically set forth herein.

17 G. A reasonable opportunity to object or be heard with respect to the Motion and the
18 relief requested therein has been afforded to all interested persons and entities, including: (a) the
19 Office of the United States Trustee, (b) the creditors appearing on the list filed in accordance with
20 Bankruptcy Rule 1007(d) by the Debtor, (c) the United States of America by service to the Attorney
21 General of the United States and the United States Attorney for the Central District of California,
22 (d) parties that have filed with the Court and served upon the Debtor requests for notice of all
23 matters in accordance with Bankruptcy Rule 2002(i), (e) Blue Wolf Capital Fund II, L.P. (“Blue
24 Wolf”), and (f) other known parties that may assert an interest in the Property.

25 H. The transfer of the Property to Sonatech, LLC (the “Buyer”) pursuant to the APA is a
26 valid, legal and effective transfer of the Property to the Buyer, free and clear of all liens, claims,
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28 ³ As used herein, “APA” shall mean that certain Bill of Sale and Agreement dated February 22, 2017, attached as Exhibit
“B” to the Motion, and any and all amendments, schedules and exhibits thereto, and all agreements and documents
contemplated thereby, executed in connection therewith, or related thereto.

1 interests and encumbrances whatsoever (other than the lien of current taxes not yet payable, if any,
2 with respect to any Property) (collectively, “Interests”) under section 363(f) of the Bankruptcy Code.

3 I. The Debtor may sell the Property free and clear of all Interests because, in each case,
4 one or more of the standards set forth in section 363(f)(1)-(5) of the Bankruptcy Code has been
5 satisfied. Those holders of Interests who did not object, or who withdrew their objections, to the
6 Motion are deemed to have consented pursuant to section 363(f)(2) of the Bankruptcy Code. Those
7 holders of Interests who did object are adequately protected by having their Interests, if any, attach
8 to the proceeds of the sale, with the same validity and priority as existed prior to the sale.

9 J. The APA is necessary to effectuate the transfer of the Property to the Buyer and the
10 other transactions contemplated in the APA and is enforceable pursuant to its terms and applicable
11 law.

12 K. The Debtor has demonstrated that approval of the APA and consummation of the Sale
13 at this time is in the best interests of the Debtor, the estate and its creditors. The Debtor has
14 advanced good and sufficient business justification supporting the sale of the Property to the Buyer
15 pursuant to section 363(b) of the Bankruptcy Code and outside of a plan of reorganization, as set
16 forth in the Motion and at the Hearing, and it is a reasonable exercise of the Debtor’s business
17 judgment to consummate a sale of the Property on the terms and conditions set forth in the APA, and
18 to execute, deliver and perform its obligations thereunder.

19 L. The Debtor has full corporate power and authority to execute and deliver the APA,
20 and documents contemplated thereby and to perform the transactions contemplated thereby; no
21 consents or approvals, other than those expressly provided for in the APA, are required for the
22 Debtor to consummate the Sale.

23 M. The consideration to be paid by the Buyer under the APA constitutes reasonably
24 equivalent value and fair consideration under the Bankruptcy Code and under the laws of the United
25 States, and any state, territory or possession of the United States or the District of Columbia.

26 N. The APA was negotiated, proposed and entered into in a non-collusive, good faith,
27 “arm’s-length” manner by the Debtor and the Buyer. The transaction proposed in the APA
28 constitutes the highest or otherwise best offer for the Property received by the Debtor. Buyer is a

1 good faith Buyer of the Property. The Buyer is entitled to the protections of a good faith purchaser
2 pursuant to section 363(m) of the Bankruptcy Code with respect to the transactions approved hereby.

3 O. Authorizing the Sale as a private sale is justified by the exigent circumstances,
4 including the Debtor's marketing efforts, the lengthy arm's length negotiations between the parties
5 each represented by counsel and the Debtor's anticipated cessation of operations as part of its
6 contemplated sales and wind down.

7 P. The Buyer would not have entered into the APA and would not consummate the
8 transactions contemplated thereby, thus adversely affecting the Debtor, its estate and its creditors, if
9 the sale of the Property to the Buyer was not free and clear of all Interests of any kind or nature
10 whatsoever, or if the Buyer would, or in the future could, be liable for any of the Interests.

11 Q. The Debtor does not have any interest in the Buyer or any party affiliated with the
12 Buyer.

13 R. The Buyer is not an "insider" of the Debtor or any party affiliated with the Debtor, as
14 that term is defined in section 101 of the Bankruptcy Code.

15 S. Time is of the essence in consummating the sale. In order to maximize the value of
16 the Property and preserve the viability of the business as a going concern, it is essential that the sale
17 of the Property occur immediately. Accordingly, there is cause to determine inapplicable the stay
18 contemplated by Bankruptcy Rule 6004(h).

19 T. Approval of the APA and consummation of the Sale at this time are in the best
20 interests of the Debtor, its creditors, its estate and other parties in interest.

21 **NOW, THEREFORE, IT IS HEREBY ORDERED, ADJUDGED AND DECREED AS**
22 **FOLLOWS:**

23 1. The Motion is granted and approved in all respects.

24 2. This Court has jurisdiction to hear and determine the Motion pursuant to 28 U.S.C.
25 § 1334.

26 3. As evidenced by the declarations of service previously filed with this Court, proper,
27 timely, adequate and sufficient notice of the Motion, the Hearing and the Sale has been provided in
28 accordance with sections 102(1) and 363 of the Bankruptcy Code and Bankruptcy Rules 2002 and

1 6004, and no other or further notice of the Motion, the Hearing or of the entry of this order is
2 required.

3 4. All objections to the Motion not withdrawn are overruled and denied.

4 5. Where appropriate herein, findings of fact shall be deemed conclusions of law and
5 conclusions of law shall be deemed findings of fact.

6 6. Each and every term and provision of this Order shall be binding in all respects upon
7 the Buyer, the Debtor, the Debtor's bankruptcy estate, any trustee who may be appointed after entry
8 of this Order, its creditors, and all individuals or entities holding an interest in the Debtor, including,
9 without limitation, any entity purporting to hold an Interest in the Buyer.

10 7. The Sale of the Property to Buyer on the terms and conditions set forth in the APA is
11 hereby approved.

12 8. The Debtor is authorized to proceed with the Sale. The Debtor and each other person
13 having duties or responsibilities under the APA or this Order, and its respective members, managers,
14 directors, officers, agents, representatives, and attorneys, are authorized and empowered to carry out
15 all of the provisions of the APA, to issue, execute, deliver, file and record, as appropriate, the APA,
16 and any related agreements, and to take any action contemplated by the APA or this Order, and to
17 issue, execute, deliver, file and record, as appropriate, such other contracts, instruments, releases,
18 deeds, bills of sale, assignments, or other agreements, and to perform such other acts as are
19 consistent with, and necessary or appropriate to, implement, effectuate and consummate the APA
20 and this Order and the transactions contemplated thereby and hereby, all without further application
21 to, or order of, the Court or further action by the Debtor's members, managers, directors or
22 stockholders, and with like effect as if such actions had been taken by unanimous action of its
23 members, managers, directors and stockholders. Without limiting the generality of the foregoing,
24 this Order shall constitute all approvals and consents, if any, required by applicable business,
25 corporation, limited liability company, trust and other laws of applicable governmental units with
26 respect to the implementation and consummation of the APA and this Order and the transactions
27 contemplated thereby and hereby.

28 9. As and to the extent provided for in the APA, upon the Closing Date, all right, title

1 and interest in and to the Property shall be immediately vested in the Buyer pursuant to section
2 363(b) and (f) of the Bankruptcy Code free and clear of Interests, except for Assumed Liabilities.

3 10. Effective upon the Closing Date, any Interests (except for the Assumed Liabilities)
4 against the Property shall attach to the proceeds of the APA with the same extent, validity, priority
5 and effect, if any, as the Interests formerly had against the Property, subject to the Debtor's ability to
6 challenge the extent, validity, priority and effect of the Interests (except to the extent such ability is
7 limited by any financing order). Without limiting the generality of the foregoing, the liens of Blue
8 Wolf shall attach to the proceeds of the APA with the same extent, validity, priority and effect, if
9 any, as such liens formerly had against the Property, subject to the terms of the *Final Order*
10 *Pursuant to Sections 105, 361, 362, 363 and 364 of the Bankruptcy Code and Bankruptcy Rules*
11 *2002, 4001 and 9014: (1) Authorizing Postpetition Financing, (2) Granting Liens and Providing*
12 *Superpriority Administrative Expense Priority, (3) Authorizing Use of Cash Collateral and*
13 *Providing for Adequate Protection, and (4) Modifying the Automatic Stay* [Dkt. No. 110].

14 11. This Order is and shall be effective as a determination that all Interests (except for
15 Assumed Liabilities) existing as to the Property conveyed to the Buyer have, effective as of the
16 Closing Date, been and hereby are terminated and declared to be unconditionally released,
17 discharged and terminated, and such determination shall be binding upon and govern the acts of all
18 entities, including all filing agents, filing officers, administrative agencies or units, governmental
19 departments or units, secretaries of state, federal, state and local officials and all other persons and
20 entities who may be required by operation of law, the duties of their office, or contract, to accept,
21 file, register or otherwise record or release any documents or instruments, or who may be required to
22 report or insure any title or state of title in or to the Property conveyed to the Buyer. Each of the
23 Buyer and the Debtor may take such further steps and execute such further documents, assignments,
24 instruments and papers to implement and effectuate the transactions contemplated in this paragraph.
25 All Interests (except for Assumed Liabilities) of record as of the date of this Order and the Closing
26 Date shall be forthwith removed and stricken as against the Property.

27 12. Except for the Assumed Liabilities expressly assumed under the APA, the Buyer shall
28 not be liable for any claims against the Debtor, its predecessors or affiliates, and the Buyer shall

1 have no successor or vicarious liabilities of any kind or character whether known or unknown as of
2 the Closing Date, now existing or hereafter arising, whether fixed or contingent, with respect to the
3 Debtor. Except for the Assumed Liabilities expressly assumed under the APA, under no
4 circumstance will the Buyer be deemed a successor of or to the Debtor for any Interest against the
5 Debtor or the Property, and the Buyer shall have no liability as a successor to the Debtor. The sale,
6 transfer, assignment and delivery of the Property shall not be subject to any Interests, except that the
7 Buyer shall assume the Assumed Liabilities the Buyer is expressly required to assume under the
8 APA.

9 13. Upon the Closing of the transactions contemplated by the APA, the Buyer shall
10 assume the Assumed Liabilities in accordance with the express terms of the APA, including, but not
11 limited to, all responsibilities of the Debtor under the Property that arise from and after the Closing
12 Date as more specifically and to the extent provided in the APA.

13 14. Except as provided in the APA or this Order, after the Closing, the Debtor and the
14 estate shall have no further liabilities or obligations with respect to any Assumed Liabilities and all
15 holders of such claims are forever barred and estopped from asserting such claims against the
16 Debtor, its successors or assigns, its property or its assets or estate.

17 15. As the Sale was non-collusive, fair and reasonable and conducted in good faith, and
18 the transactions contemplated by the APA have been bargained for and undertaken by the Debtor
19 and the Buyer at arm's length and without collusion, the Sale approved by this Order is not subject
20 to avoidance pursuant to section 363(n) of the Bankruptcy Code.

21 16. Nothing contained in any plan of reorganization (or liquidation) confirmed in this
22 case or the order of confirmation confirming any plan of reorganization (or liquidation) shall conflict
23 with or derogate from the provisions of the APA or the terms of this Order. Further, the provisions
24 of this Order and any actions taken pursuant hereto shall survive the entry of any order which may
25 be entered converting the Debtor's case from Chapter 11 to a case under Chapter 7 of the
26 Bankruptcy Code.

27 17. The terms and provisions of the APA, together with the terms and provisions of this
28 Order, shall be binding in all respects upon, and shall inure to the benefit of, the Debtor, its estate,

1 any trustee appointed in this case (whether in Chapter 7 or Chapter 11), its creditors, the Buyer and
2 its respective affiliates, successors and assigns, and any affected third parties, including but not
3 limited to, any and all persons asserting a claim against or interest in the Debtor's estate or the
4 Property.

5 18. The APA may be modified, amended, or supplemented by the parties thereto, in a
6 writing signed by the parties in accordance with the terms thereof without further order of the Court,
7 provided that any such modification, amendment, or supplement is immaterial and the Debtor is
8 authorized to execute any additional documents reasonably necessary to consummate the
9 transactions set forth in the APA.

10 19. On the Closing Date, this Order will be construed and constitute for any and all
11 purposes a full and complete general assignment, conveyance and transfer of the Property or a bill of
12 sale transferring title in the Property to the Buyer. Each and every federal, state, and local
13 governmental agency or department shall be, and it hereby is, directed to accept any and all
14 documents and instruments, including this Order, necessary and appropriate to consummate the
15 transactions contemplated by the APA.

16 20. No bulk sales law, or similar law of any state or other jurisdiction shall apply in any
17 way to the transactions contemplated by the APA, the Motion or this Order.

18 21. Notwithstanding any other provision of the APA to the contrary, nothing in the APA
19 or other related documents implementing the transactions contemplated herein (collectively,
20 "Documents"), authorizes the transfer or assignment of any licenses, authorizations, guaranties,
21 leases, contracts, easements, rights of way, agreements or other interests of the United States relating
22 to the Navy Contracts (collectively, the "Federal Interests") without compliance with all applicable
23 legal requirements under non-bankruptcy law governing such transfers or assignments. Moreover,
24 without limiting the foregoing, nothing in the Documents shall be interpreted to set cure amounts
25 with respect to any Navy Contract or to require the United States to novate or otherwise consent to
26 the transfer of any Federal Interests. The United States' rights to offset or recoup any amounts due
27 under, or relating to, any Federal Interests are expressly preserved. Further, the Debtor's rights and
28 defenses with respect to the United States' offset or recoupment of any amounts due under, or

1 relating to, any Federal Interests are expressly preserved.

2 22. Because the Court finds that the Buyer is a good faith purchaser within the meaning
3 of section 363(m) of the Bankruptcy Code, in the event that the parties to the Sale consummate the
4 transactions contemplated thereby while an appeal of this Order is pending, the Buyer shall be
5 entitled to rely upon the protections of section 363(m) of the Bankruptcy Code, absent any stay
6 pending appeal granted by a court of competent jurisdiction prior to such consummation.

7 23. This Court retains jurisdiction to:

8 a. Interpret, implement and enforce the terms and provisions of this Order and
9 the terms of the APA, all amendments thereto and any waivers and consents thereunder and of each
10 of the agreements executed in connection therewith or related thereto;

11 b. Compel delivery of the Property to the Buyer;

12 c. Until the entry of a final decree in this case, resolve any disputes arising under
13 or related to the Sale; and

14 d. Adjudicate all issues concerning alleged Interests and any other alleged
15 interests in and to the Property or the proceeds of the Sale, including the extent, validity,
16 enforceability, priority and nature of all such alleged interests relating to the proceeds of the Sale.

17 24. Notwithstanding Bankruptcy Rules 6004 and 7062, this Order shall be effective and
18 enforceable immediately upon entry and its provisions shall be self-executing, and the Motion or
19 notice thereof shall be deemed to provide sufficient notice of the Debtors' request for waiver of the
20 otherwise applicable stay of the order. This Order shall be effective immediately upon entry
21 pursuant to Rule 7062 and 9014 of the Federal Rules of Bankruptcy Procedure.

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23 ###

EXHIBIT B

APA

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PACHULSKI STANG ZIEHL & JONES LLP
ATTORNEYS AT LAW
LOS ANGELES, CALIFORNIA

ASSET PURCHASE AGREEMENT
(Sonatech Assets)

THIS ASSET PURCHASE AGREEMENT (the “**Agreement**”) is made and entered into as of this 27th day of February, 2017, by and between Sonatech, LLC, a California limited liability company (the “**Buyer**”), on the one hand, and Channel Technologies Group, LLC, a California limited liability company (the “**Seller**” and, together with Buyer, the “**Parties**”), Seller being a Debtor and Debtor in Possession under Case No. 9:16-bk-11912-PC (the “**Case**”) in the United States Bankruptcy Court for the Central District of California – Santa Barbara Division (the “**Bankruptcy Court**”).

RECITALS

A. Seller wishes to sell to Buyer, pursuant to Sections 363 of Chapter 11 of Title 11 of the United States Code (the “**Bankruptcy Code**”), certain assets of Seller (as more particularly described in the Schedules hereto) heretofore used exclusively in connection with Seller’s classified “Sonatech” project activities and operations (the “**Sonatech Project Activities**”) at 879 Ward Drive, Santa Barbara, California (the “**Facility**”), all at the price and on the other terms and conditions specified in detail below.

B. Buyer wishes to so purchase and acquire such assets from Seller.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. Transfer of Assets.

1.1 Purchase and Sale of Assets. On the Closing Date, as hereinafter defined, in consideration of the covenants, representations and obligations of Buyer hereunder, and subject to the conditions hereinafter set forth, Seller shall sell, assign, transfer, convey and deliver to Buyer, and Buyer shall purchase from Seller, Seller’s right, title and interest as of the Closing Date in and to the following assets and properties, and only such assets and properties of Seller (collectively, the “**Property**”):

1.1.1 Leases and Contracts. Seller’s right, title and interest in and to (i) the lessee’s interest under those equipment, personal property and intangible property leases, rental agreements, licenses, contracts, agreements and similar arrangements, if any, described on **Schedule 1.1.1-(i)** attached to this Agreement and incorporated herein by this reference (collectively, the “**Equipment Leases**”), and (ii) those other contracts, orders, purchase orders, licenses, contracts, agreements and similar arrangements described on **Schedule 1.1.1-(ii)** attached to this Agreement and incorporated herein by this reference (collectively, the “**Other Contracts**” and together with the Equipment Leases, the “**Leases and Contracts**”).

1.1.2 Personal Property. Those items of equipment and tangible personal property owned by Seller which are specifically listed or described in **Schedule 1.1.2** attached to this Agreement and incorporated herein by this reference (collectively, the “**Personal**”

Property”). For the avoidance of all doubt, the Personal Property shall expressly exclude any equipment or other tangible property held by Seller pursuant to a lease, rental agreement, contract, license or similar arrangement (a “**Contract**”) where Buyer does not assume the underlying Contract relating to such personal property at the Closing.

1.1.3 Intangible Property. To the extent of Seller’s interest and only to the extent transferable, those books, records, patents, processes, trademarks, trade names, service marks, catalogues, customer lists and other customer data bases, correspondence with present or prospective customers and suppliers, advertising materials, software programs, and telephone exchange numbers identified with the Sonatech Project Activities, but, in each of the foregoing cases, only if and to the extent such items are specifically described on **Schedule 1.1.3** attached hereto and incorporated herein by this reference (collectively, the items specifically described on **Schedule 1.1.3**, the “**Intangible Property**”). As used in this Agreement, Intangible Property shall in all events exclude(i) any materials containing privileged communications or information about employees, disclosure of which would violate an employee’s reasonable expectation of privacy and any other materials which are subject to attorney-client or any other privilege, and (ii) any software or other item of intangible property held by Seller pursuant to a license or other Contract where Buyer does not assume the underlying Contract relating to such intangible personal property at the Closing.

1.1.4 Governmental Permits. To the extent transferable and assignable and to the extent relating solely and exclusively to Seller’s Sonatech Project Activities at the Facility, Seller’s interest in all licenses, certificates of occupancy, permits, registrations, certificates of public convenience and necessity, approvals, licenses, easements, authorizations and operating rights which are both (i) issued or granted by any governmental or similar authority having jurisdiction over the Sonatech Project Activities at the Facility, and (ii) specifically described on **Schedule 1.1.4** attached hereto and incorporated herein by this reference (collectively, such items satisfying both the criteria set forth in clauses (i) and (ii) of the Section 1.1.4, the “**Permits and Licenses**”).

1.1.5 Inventory. All supplies, goods, materials, work in process, inventory and stock in trade owned and held by Seller relating exclusively to the Sonatech Project Activities and described or listed on **Schedule 1.1.5** attached hereto and incorporated herein by this reference, in each case as the same may exist as of the Closing (collectively, the “**Inventory**”).

1.1.6 Vendor Items. Those promotional allowances and vendor rebates and similar items, if any, which relate exclusively to the Sonatech Project Activities and are specifically described and listed on **Schedule 1.1.6** attached hereto and incorporated herein by this reference, as the same may exist as of the Closing (collectively, the “**Vendor-Related Assets**”).

1.1.7 Claims, Etc. Both (a) those claims, prepayments, warranties, guarantees, refunds, reimbursements, causes of action, rights of recovery, rights of set-off and rights of recoupment, if any, specifically described and listed on **Schedule 1.1.7** attached hereto and incorporated herein by this reference, as the same may exist as of the Closing, and (b) all

rights to assert claims, if any, for infringement of any Intellectual Property Rights (as such term is defined below) to the extent the same relate to or arise solely and exclusively out of assets or interests included as part of the Property (collectively, the “**Claims**”).

The items and assets described in Sections 1.1.2 and 1.1.4 through 1.1.7 are sometimes collectively referred to herein as the “**Assignment Property.**” For purposes of this Agreement, the term “**Intellectual Property Rights**” means any and all, whether domestic or foreign, patents, patent applications, patent rights, trade secrets, confidential business information, formulae, processes, laboratory notebooks, computer software source code and object code, algorithms, copyrights, mask works, claims of infringement against third parties, licenses, permits, license rights, contract rights with employees, consultants and third parties, trademarks, trademark rights, inventions and discoveries, and such other rights generally classified as intangible, intellectual property assets in accordance with generally accepted accounting principles. For the avoidance of all doubt, Buyer expressly acknowledges that following the Closing, Buyer’s sole and exclusive right to use or utilize in any way (directly or indirectly) any property or assets of any type or kind of Seller (whether tangible, intangible or otherwise) owned or theretofore owned by Seller shall be limited to the Property and the rights acquired hereunder with respect to such Property.

1.2 Excluded Assets. Notwithstanding anything to the contrary in this Agreement, the Property shall be limited solely and exclusively to the Property and any and all other assets and property of Seller (or in which Seller has any right, title or interest whatsoever) shall be excluded from and not be a part of the transactions contemplated herein in any respect.

1.3 Instruments of Transfer. The sale, assignment, transfer, conveyance and delivery of the Property to Buyer shall be made by deeds, assignments, bill of sale, and other instruments of assignment, transfer and conveyance provided for in Section 3 below and such other instruments as may reasonably be requested by Buyer to transfer, convey, assign and deliver the Property to Buyer, but in all events only to the extent that the same do not impose any monetary obligations upon Seller or in any other respect increase in any material way the burdens imposed by the other provisions of this Agreement upon Seller.

2. Consideration and Liquidated Damages.

2.1 Purchase Price.

2.1.1. The cash consideration to be paid by Buyer to Seller for the Property (the “**Purchase Price**”) shall be an amount equal to Three Hundred Twenty-Eight Thousand Seven Hundred Fifty Dollars (\$328,750.00).

2.1.2 The Purchase Price shall be paid as follows:

(a) Concurrently with the mutual execution and delivery of this Agreement (the date of such mutual execution and delivery is sometimes referred to herein as the “**Execution Date**”), Buyer shall deposit into an escrow (the “**Escrow**”) with a licensed escrow agent (the “**Escrow Holder**”) reasonably designated by Seller an amount equal to \$50,000.00

(the “**Deposit**”) in immediately available, good funds (funds delivered in this manner are referred to herein as “**Good Funds**”), pursuant to joint escrow instructions to be delivered to the Escrow Holder on or before the Execution Date. In turn, the Escrow Holder shall immediately deposit the Deposit into an interest-bearing account. The Deposit shall become nonrefundable upon the termination of the transaction contemplated by this Agreement by reason of Buyer’s default of any obligation hereunder (a “**Buyer Default Termination**”), it being agreed that Seller shall not have the right to so terminate this Agreement unless Buyer has failed to cure the applicable default within five (5) days following its receipt of written notice thereof from Seller. At the Closing, the Deposit (and any interest accrued thereon) shall be credited and applied toward payment of the Purchase Price. In the event the Deposit becomes nonrefundable because of a Buyer Default Termination, Escrow Holder shall immediately disburse the Deposit and all interest accrued thereon to Seller to be retained by Seller for its own account. If the transactions contemplated herein terminate by reason of (A) Seller’s material default under this Agreement, it being agreed that Buyer shall not have the right to so terminate this Agreement unless Seller has failed to cure the applicable default within five (5) days following their receipt of written notice thereof from Buyer, or (B) the failure of a condition to Buyer’s obligations hereunder, the Escrow Holder shall return to Buyer the Deposit (together with all interest accrued thereon), but less Buyer’s one-half share of the Escrow Holder’s escrow fees and charges.

(b) LIQUIDATED DAMAGES. BUYER AND SELLER HEREBY ACKNOWLEDGE THAT, IN THE EVENT OF BUYER'S DEFAULT, IT WOULD BE IMPRACTICABLE AND EXTREMELY DIFFICULT TO ESTIMATE THE DAMAGES SELLER MAY SUFFER OR INCUR IN THE EVENT THAT THE TRANSACTION CONTEMPLATED HEREIN FAILS TO CLOSE BY REASON OF SUCH DEFAULT. ACCORDINGLY, NOTWITHSTANDING ANYTHING TO THE CONTRARY HEREIN, BUYER AND SELLER HEREBY AGREES THAT CONSIDERING ALL OF THE CIRCUMSTANCES EXISTING AT THE EXECUTION OF THIS AGREEMENT, A REASONABLE ESTIMATE OF THE TOTAL DETRIMENT THAT SELLER WOULD SUFFER IN THE EVENT THAT THE TRANSACTION CONTEMPLATED HEREIN FAILS TO CLOSE BY REASON OF BUYER'S DEFAULT IS AND SHALL BE AN AMOUNT EQUAL TO THE AMOUNT OF THE DEPOSIT. EXCEPT AS OTHERWISE PROVIDED IN CLAUSES (ii) AND (iii) BELOW, SAID AMOUNT SHALL REPRESENT THE FULL, AGREED, AND LIQUIDATED DAMAGES TO WHICH SELLER IS ENTITLED BY REASON OF BUYER'S BREACH AND SELLER HEREBY EXPRESSLY WAIVES ANY AND ALL OTHER CLAIMS TO DAMAGES OR OTHER REMEDIES (WHETHER AT LAW OR IN EQUITY). THE PAYMENT OF SUCH AMOUNT AS LIQUIDATED DAMAGES IS NOT INTENDED AS A FORFEITURE OR PENALTY WITHIN THE MEANING OF CALIFORNIA CIVIL CODE SECTIONS 3275 OR 3369, BUT RATHER IS INTENDED TO CONSTITUTE LIQUIDATED DAMAGES TO SELLER PURSUANT TO CALIFORNIA CIVIL CODE SECTIONS 1671, ET. SEQ. UPON BUYER'S DEFAULT AND SELLER'S ELECTION TO TERMINATE THIS AGREEMENT BY REASON THEREOF, THIS AGREEMENT SHALL TERMINATE AND EXCEPT FOR (i) SELLER'S RIGHT TO COLLECT THE AMOUNT OF SUCH LIQUIDATED DAMAGES, (ii) ANY PROVISIONS AND OBLIGATIONS (INCLUDING, WITHOUT LIMITATION, BUYER'S INDEMNITY OBLIGATIONS) OF THIS AGREEMENT WHICH BY THEIR TERMS SURVIVE ANY

TERMINATION OF THIS AGREEMENT, AND (iii) THE PARTIES' RESPECTIVE OBLIGATIONS UNDER SECTION 11.2 OF THIS AGREEMENT, THE PARTIES HERETO SHALL BE RELIEVED OF ANY FURTHER LIABILITY OR OBLIGATION UNDER THIS AGREEMENT. BY PLACING THEIR INITIALS IN THE SPACES PROVIDED BELOW, EACH PARTY SPECIFICALLY ACKNOWLEDGES AND CONFIRMS THE ACCURACY OF THE STATEMENTS SET FORTH ABOVE AND THAT THEY WERE REPRESENTED BY COUNSEL OF THEIR CHOICE WHO FULLY EXPLAINED THE CONSEQUENCES OF THIS LIQUIDATED DAMAGES PROVISION AT THE TIME OF EXECUTION OF THIS AGREEMENT.

Seller's Initials: MT Buyer's Initials: NTS

(c) On the Closing Date, Buyer shall (A) cause the Escrow Holder to deliver the Deposit (together with all accrued interest thereon) to Seller, and (B) pay and deliver, in Good Funds, the balance of the Purchase Price to Seller.

2.2 Assumed Liabilities; Purchase Price Allocation.

2.2.1. Effective as of the Closing Date, Buyer shall assume all of the following: (i) without in any way limiting Buyer's obligations to bear and pay any and all cure amounts that are payable with respect to any period prior to the Closing and are identified on **Schedule 2.2.1** hereto as "cure amounts" being assumed by Buyer, all liabilities and obligations of Seller first arising or accruing after the Closing Date under the Leases and Contracts, and (ii) all additional liabilities and obligations set forth or described on **Schedule 2.2.1-(ii)** hereto (collectively, the "**Assumed Liabilities**"). For the avoidance of all doubt, Buyer acknowledges and agrees that Seller shall not have any obligation to assume and assign (or otherwise assign) to Buyer any Lease or Contract with respect to which there is a "cure amount" payable that is not assumed by Buyer and that Seller's failure to assign any such Lease or Contract shall have no effect whatsoever on the Purchase Price or Buyer's obligation to otherwise consummate the transactions contemplated by this Agreement.

2.2.2. Purchase Price Allocation. The Purchase Price shall be allocated among the various assets comprising the Property in accordance with the allocation schedule attached hereto (the "**Allocation Schedule**") in accordance with Treasury Regulation 1.1060-1 (or any comparable provisions of state or local tax law) or any successor provision. Buyer and Seller shall file or cause to be filed any and all tax forms (including U.S. Internal Revenue Service Form 8594), statements and schedules with respect to the transactions contemplated by this Agreement (including any required amendments to such forms, statements and schedules) strictly in accordance with the allocation of the Purchase Price set forth on the Allocation Schedule.

3. Closing Transactions.

3.1 Closing Conference. The Closing of the transactions provided for herein (the "**Closing**") shall take place at such place or places as the Parties may mutually agree upon.

3.2 Closing Date. The Closing shall be held upon the earlier to occur of (i) the second (2nd) business day following the satisfaction of the last of the conditions set forth in Sections 4.1 and 4.2 below, and (ii) March 31, 2017 (the “**Outside Date**”); provided, however, in the event the conditions to Closing have not been satisfied or waived by the Outside Date, then any Party who is not in default hereunder may terminate this Agreement. Alternatively, the Parties may mutually agree to an extended Closing Date. Until this Agreement is either terminated or the Parties have agreed upon an extended Closing Date, the Parties shall diligently continue to work to satisfy all conditions to Closing and the transaction contemplated herein shall close as soon as such conditions are satisfied or waived.

3.3 Seller’s Deliveries to Buyer at Closing. On the Closing Date, Seller shall make the following deliveries to Buyer:

3.3.1 An Assignment and Assumption of Contracts substantially in the form and content attached as **Exhibit “A”** hereto, duly executed by Seller pursuant to which Seller shall assign to Buyer such Seller’s interest, if any, in the Leases and Contracts (the “**Assignment of Leases**”).

3.3.2 A Bill of Sale and Assignment, duly executed by Seller in the form and on the terms of the bill of sale attached hereto as **Exhibit “B,”** pursuant to which Seller transfers and assigns to Buyer such Seller’s right, title and interest in and to the Personal Property and the Assignment Property (the “**Bill of Sale**”).

3.3.3 A counterpart Assignment of Intangible Property, duly executed by Seller, in the form and content of the assignment of intangible property attached as **Exhibit “C”** hereto, pursuant to which Seller assigns to Buyer such Seller’s interest, if any, in and to the Intangible Property (the “**Assignment of Intangible Property**”).

3.3.4 A counterpart of the Sublease Modification Agreement (as defined in Section 4.1.8 below), duly-executed by Seller.

3.3.5 Any such other documents, funds or other things reasonably contemplated by this Agreement to be delivered by Seller to Buyer at the Closing.

3.4 Buyer’s Deliveries to Seller at Closing. On the Closing Date, Buyer shall make or cause the following deliveries to Seller:

3.4.1 Payment of the Purchase Price.

3.4.2 A counterpart of the Assignment of Leases, duly-executed by Buyer.

3.4.3 An Assumption of Liabilities with respect to the Assumed Liabilities, in the form and content attached as **Exhibit “D”** hereto and incorporated herein by this reference, duly-executed by Buyer (the “**Assumption of Liabilities**”).

3.4.4 A counterpart of the Sublease Modification Agreement, duly-executed by Buyer.

3.4.5 Any such other documents, funds or other things reasonably contemplated by this Agreement to be delivered by Buyer to Seller at the Closing.

3.5 Prorations. Rent, current taxes, prepaid advertising, utilities and other items of expense (including, without limitation, any prepaid insurance, maintenance, tax or common area or like payments under the Leases and Contracts, or any of them) relating to or attributable to the Seller's Sonatech Project Activities at the Facility and/or the Property shall be prorated between Seller and Buyer as of the Closing Date. All liabilities and obligations due in respect of periods prior to or as of the Closing Date shall be paid in full or otherwise satisfied by Seller and all liabilities and obligations due in respect of periods after the Closing Date shall be paid in full or otherwise satisfied by Buyer; provided, however, the provisions of this Section 3.5 are subject to Buyer's obligations to assume liabilities and obligations pursuant to Section 2.2, above. Rent shall be prorated based on a thirty (30) day month.

3.6 Sales, Use and Other Taxes. Any sales, purchase, transfer, stamp, documentary stamp, use or similar taxes under the laws of the states in which any portion of the Property is located, or any subdivision of any such state, or under any federal law or the laws or regulations of any federal agency or authority, which may be payable by reason of the sale or transfer of the Property under this Agreement or the transactions contemplated herein shall be borne and paid by Buyer.

3.7 Possession. Right to possession of the Property shall transfer to Buyer on the Closing Date. Seller shall transfer and deliver to Buyer on the Closing Date such keys, locks and safe combinations and other similar items as Buyer may reasonably require to obtain occupation and control of the Property, and shall also make available to Buyer at their then existing locations the originals of all documents in Seller's actual possession that are required to be transferred to Buyer by this Agreement.

4. Conditions Precedent to Closing.

4.1 Conditions to Seller's Obligations. Seller's obligation to make the deliveries required of Seller at the Closing Date and otherwise consummate the transaction contemplated herein shall be subject to the satisfaction or waiver by Seller of each of the following conditions:

4.1.1 All of the representations and warranties of Buyer contained herein shall continue to be true and correct at the Closing in all material respects.

4.1.2 Buyer shall have executed and delivered to Seller the Assignment of Leases and the Assumption of Liabilities.

4.1.3 Buyer shall have delivered, or shall be prepared to deliver to Seller at the Closing, all cash and other documents required of Buyer to be delivered at the Closing.

4.1.4 Buyer shall have delivered to Seller appropriate evidence of all necessary entity action by Buyer in connection with the transactions contemplated hereby, including, without limitation: (i) certified copies of resolutions duly adopted by Buyer's members approving the transactions contemplated by this Agreement and authorizing the execution, delivery, and performance by Buyer of this Agreement; and (ii) a certificate as to the incumbency of those Managers of Buyer executing this Agreement and any instrument or other document delivered in connection with the transactions contemplated by this Agreement.

4.1.5 No action, suit or other proceedings shall be pending before any court, tribunal or governmental authority seeking or threatening to restrain or prohibit the consummation of the transactions contemplated by this Agreement, or seeking to obtain substantial damages in respect thereof, or involving a claim that consummation thereof would result in the violation of any law, decree or regulation of any governmental authority having appropriate jurisdiction.

4.1.6 Buyer shall have substantially performed or tendered performance of each material covenant on Buyer's part to be performed which, by its terms, is required to be performed at or before the Closing.

4.1.7 Buyer and Seller, as Sublessee and Sublessor, respectively, shall have entered into a Sublease relating to a portion of the Facility (the "**Sublease**"), which Sublease shall be identical in form and content to **Exhibit "E"** attached hereto and incorporated herein by this reference.

4.1.8 The Bankruptcy Court shall have entered the Approval Order in accordance with Section 8 below and the Approval Order shall not have been stayed as of the Closing Date.

4.1.9 Each of the Transferred Employees (as defined in Section 10.1 below) shall have executed and delivered to Seller a Confidentiality and Proprietary Rights Agreement (in favor of Seller with respect to confidential, proprietary and other information and assets of Seller not included in the Property) in the form and content attached as **Exhibit "F"** hereto and incorporated herein by this reference.

4.2 Conditions to Buyer's Obligations. Buyer's obligation to make the deliveries required of Buyer at the Closing and otherwise consummate the transaction contemplated herein shall be subject to the satisfaction or waiver by Buyer of each of the following conditions:

4.2.1 Seller shall have substantially performed or tendered performance of each and every covenant on Seller's part to be performed which, by its terms, is required to be performed or capable of performance at or before the Closing.

4.2.2 All of the representations and warranties of Seller contained herein shall continue to be true and correct at the Closing in all material respects.

4.2.3 Seller shall have delivered, or shall be prepared to deliver to Buyer at the Closing, all documents required of Seller to be delivered at the Closing.

4.2.4 No action, suit or other proceedings shall be pending before any court, tribunal or governmental authority seeking or threatening to restrain or prohibit the consummation of the transactions contemplated by this Agreement, or seeking to obtain substantial damages in respect thereof, or involving a claim that consummation thereof would result in the violation of any law, decree or regulation of any governmental authority having appropriate jurisdiction.

4.2.5 The Bankruptcy Court shall have entered the Approval Order in accordance with Section 8 below and the Approval Order shall not have been stayed as of the Closing Date.

4.2.6 Buyer and Seller shall have entered into the Sublease .

Any waiver of a condition shall be effective only if such waiver is stated in writing and signed by the waiving Party; provided, however, that the consent of a Party to the Closing shall constitute a waiver by such Party of any conditions to Closing not satisfied as of the Closing Date.

5. Seller's Representations and Warranties. Seller hereby makes the following representations and warranties to Buyer:

5.1 Organization, Standing and Power. Seller is a limited liability company, duly organized, validly existing and in good standing under the laws of the state of California. Seller has all requisite entity power and authority to own, lease and, subject to the provisions of the Bankruptcy Code applicable to debtors in possession, operate its properties, to carry on Seller's business as now being conducted. Subject to entry of the Approval Order, Seller has the power and authority to execute, deliver and perform this Agreement and all writings relating hereto.

5.2 Validity and Execution. This Agreement has been duly executed and delivered by Seller and, upon entry of the Approval Order, will constitute the valid and binding obligation of Seller enforceable against it in accordance with its terms, except as may be limited by any bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer or other laws (whether statutory, regulatory or decisional), now or hereafter in effect, relating to or affecting the rights of creditors generally or by equitable principles (regardless of whether considered in a proceeding at law or in equity).

5.3 No Conflict. Subject to entry of the Approval Order, the consummation of the transactions herein contemplated, and the performance of, fulfillment of and compliance with the terms and conditions hereof by Seller do not and will not: (i) conflict with or result in a breach of the articles of incorporation, by-laws or operating agreement, as applicable, of Seller; (ii) violate any statute, law, rule or regulation, or any order, writ, injunction or decree of any court or governmental authority, or (iii) violate or conflict with or constitute a default under any

agreement, instrument or writing of any nature to which Seller is a Party or by which Buyer or its assets or properties may be bound.

6. Buyer's Warranties and Representations. In addition to the representations and warranties contained elsewhere in this Agreement, Buyer hereby makes the following representations and warranties to Seller:

6.1 Organization, Standing and Power. Buyer is a corporation duly organized, validly existing and in good standing under the laws of California. Buyer has all requisite entity power and authority to own, lease and operate its properties, to carry on its business as now being conducted and to execute, deliver and perform this Agreement and all writings relating hereto.

6.2 No Conflict. The execution, delivery and performance of this Agreement and all writings relating hereto by Buyer have been duly and validly authorized. The execution and delivery of this Agreement, the consummation of the transactions herein contemplated, and the performance of, fulfillment of and compliance with the terms and conditions hereof by Buyer do not and will not: (i) conflict with or result in a breach of the articles of incorporation or by-laws of Buyer or, if applicable, other organizational documents or agreements of Buyer; (ii) violate any statute, law, rule or regulation, or any order, writ, injunction or decree of any court or governmental authority; or (iii) violate or conflict with or constitute a default under any agreement, instrument or writing of any nature to which Buyer is a Party or by which Buyer or its assets or properties may be bound.

7. "AS IS" Transaction. Buyer hereby acknowledges and agrees that Seller makes no representations or warranties whatsoever, express or implied, with respect to any matter relating to the Property, or any portion thereof (including, without limitation, income to be derived or expenses to be incurred in connection with the Property, the physical condition of the Personal Property or Inventory, the environmental condition or other matter relating to the physical condition of any real property or improvements which comprise the Facility, the zoning of the real property or improvements which comprise the Facility, the value of the Property (or any portion thereof), the transferability of any intellectual property licenses or any other portion of the Property, the terms, amount, validity, collectability or enforceability of the Accounts Receivable or any Assumed Liabilities or Lease or Contract, the merchantability or fitness of the Personal Property, the Inventory or any other portion of the Property for any particular purpose, whether the assignment of any Lease or Contract without the consent of the counterparties thereto or any Lease or Contract would constitute a breach or default under such Lease or Contract). Without in any way limiting the foregoing, Seller hereby disclaims any warranty (express or implied) of merchantability or fitness for any particular purpose as to any portion of the Property. Buyer further acknowledges that Buyer has conducted an independent inspection and investigation of the physical condition of all portions the Property and all such other matters relating to or affecting or comprising the Property and/or the Assumed Liabilities as Buyer deemed necessary or appropriate and that in proceeding with its acquisition of the Property, Buyer is doing so based solely upon such independent inspections and investigations. Accordingly, Buyer will accept the Property at the Closing **"AS IS, "WHERE IS," and "WITH ALL FAULTS."**

8. Bankruptcy Court Approvals. Promptly following the Execution Date (and in no event later than two (2) business days thereafter), Seller will make a motion (the “**Sale Motion**”) for an order (the “**Approval Order**”) from the Bankruptcy Court which approves the sale of the Property to Buyer on the terms and conditions set forth in this Agreement and authorizes the Seller to proceed with this transaction, which Approval Order shall be substantially in the form and content attached as **Exhibit “G”** hereto and incorporated herein by this reference. If requested by the Bankruptcy Court or Seller, Buyer shall provide adequate assurance of future performance (satisfactory to the Bankruptcy Court) to the counterparties to the Leases and Contracts. Following the filing of the Sale Motion, Seller shall use commercially reasonable efforts to obtain the Approval Order. Both Buyer’s and Seller’s obligations to consummate the transactions contemplated in this Agreement which the Buyer and Seller may hereafter enter into shall be conditioned upon the Bankruptcy Court’s entry of the Approval Order. If (i) the Bankruptcy Court refuses to issue the Approval Order at the hearing on the Sale Motion, or (ii) the Approval Order is for any reason whatsoever not entered by the Bankruptcy Court on or before March 31, 2017, then, in either circumstance, either Seller or Buyer shall have the right to terminate this Agreement upon written notice to the other, whereupon Seller and Buyer shall be relieved of any further liability or obligation hereunder unless the failure of the Approval Order to get entered is the result of a Party’s breach hereunder, in which case the non-breaching Party shall have the right to pursue its remedies for the other Party’s breach hereof. In the event of any such termination, and provided that Buyer is not in default hereunder, the Escrow Holder shall return to Buyer the Deposit (together with all interest accrued thereon), but less Buyer’s one-half share of the Escrow Holder’s escrow fees and charges. Upon entry of the Approval Order in accordance with the provisions of this Section 8, the condition set forth in this Section 8 shall conclusively be deemed satisfied, unless the Approval Order is stayed by the Bankruptcy Court prior to the Closing. Seller shall promptly provide Buyer with drafts of all documents, motions, orders, filings or pleadings that Seller proposes to file with the Bankruptcy Court which relate to the consummation or approval of this Agreement and to the extent practicable will provide Buyer with reasonable opportunity to review such filings and Seller shall consider in good faith Buyer’s reasonable and customary suggestions and comments to those filings.

9. Pre-Closing Covenants.

9.1 Except (i) as otherwise expressly contemplated by this Agreement, (ii) with the prior written consent of Buyer, or (iii) as prohibited or restricted by the Bankruptcy Code or orders of the Bankruptcy Court, from the date hereof until the Closing Date, the Seller shall use commercially reasonable efforts to: (a) conduct the Sonatech Project Activities at the Facility in a manner substantially similar to the manner in which the Seller has conducted such Sonatech Project Activities during the period immediately prior to the Execution Date, (b) preserve intact the Sonatech Project Activities at the Facility, to keep available, either through active, full-time employment with Seller or through active on-call employment with Seller, the services of the employees listed on **Schedule 9** attached hereto and incorporated herein by this reference (collectively, the “**Employees**”); provided that, without limiting any other caveats to Seller’s obligations, nothing herein shall be deemed to impose on Seller any obligation to incur any additional costs to so retain the Employees, nor shall this covenant be deemed breached by Seller’s termination of any such Employee by reason of any violation by such Employee of

Seller's standard terms of employment or any employment agreement between Seller and the applicable Employee, (c) without limiting the generality of the foregoing clauses "(a)" and "(b)," keep Contract Nos. 13G5232 and N00167-14-D-0003, each between Seller and the United States Navy (collectively, the "Navy Contracts") in full force and effect and discharge the obligations of Seller thereunder on or before the due date of Seller's performance, provided, however, for the avoidance of any doubt, nothing in this Section 9 shall require Seller to bear or pay any cure amounts relating to the Navy Contracts (all of which shall be borne and paid as and when required by Buyer) or to cure any other presently existing defaults on Seller's part under the Navy Contracts, and (d) not take any action inconsistent with this Agreement or with the consummation of the Closing.

9.2 Notwithstanding any other provision of this Agreement to the contrary, nothing in this Agreement or other related documents implementing the transactions contemplated herein (collectively, "**Documents**"), authorizes the transfer or assignment of any licenses, authorizations, guaranties, leases, contracts, easements, rights of way, agreements or other interests of the United States relating to the Navy Contracts (collectively, the "**Federal Interests**") without compliance with all applicable legal requirements under non-bankruptcy law governing such transfers or assignments. Moreover, without limiting the foregoing, nothing in the Documents shall be interpreted to set cure amounts with respect to any Navy Contract or to require the United States to novate or otherwise consent to the transfer of any Federal Interests. The United States' rights to offset or recoup any amounts due under, or relating to, any Federal Interests are expressly preserved.

10. Employee Matters.

10.1 Prior to the Closing, Buyer shall offer to employ all of the Employees at their salaries, compensation levels and terms and conditions of employment applicable to their employment by Seller immediately prior to the Closing. Such Employees who become employees of Buyer shall be collectively referred to as the "**Transferred Employees.**"

10.2 To the extent permitted by applicable law, Buyer shall give Transferred Employees full credit for purposes of eligibility and vesting and benefit accrual (other than benefit accrual under a defined benefit pension plan) under the employee benefit plans or arrangements maintained by the Buyer in which such Transferred Employees participate for such Transferred Employees' service with the Seller.

10.3 With respect to any welfare benefit plans maintained by Buyer for the benefit of Transferred Employees on and after the Closing Date, Buyer shall, to the extent permitted under applicable law and the terms of Buyer's benefit plans, (i) cause there to be waived any eligibility requirements or pre-existing condition limitations, and (ii) give effect, in determining any deductible and maximum out-of-pocket limitations, amounts paid by such Transferred Employees with respect to benefit plans heretofore maintained by the Seller.

10.4 Seller shall be responsible for paying and discharging all liabilities for vacation time, sick leave, personal leave and other compensated time off accrued by the Transferred Employees as of the Closing Date.

11. Miscellaneous.

11.1 Risk of Loss, Damage and Destruction; Condemnation. Seller shall promptly notify Buyer of the occurrence of any material damage to or destruction of the Property that occurs prior to the Closing Date. In the event of any uninsured damage to or destruction of the Property prior to the Closing Date the cost of which to repair would total \$10,000.00 or less, then such damage or destruction shall have no effect whatsoever on the Purchase Price or Buyer's or Seller's obligation to close. Should any uninsured damage or destruction to the Property occur prior to the Closing Date the cost of which to repair would total more than \$10,000.00 but less than \$25,000.00, then unless Seller causes the same to be repaired and restored in all material respects prior to the Closing Date (in which case the Purchase Price shall be unaffected and the parties shall proceed with the Closing as though such damage, destruction or proceedings had never occurred or been initiated), Buyer's sole remedy shall be to receive a dollar-for-dollar reduction in the Purchase Price in an amount equal to the sum of (i) the cost of such repairs, less (ii) the amount of any insurance proceeds with respect thereto assigned to Buyer at the Closing, and consummate the transaction contemplated herein. If any uninsured damage or destruction to the Property occurs prior to the Closing Date the cost of which to repair would total \$25,000.00 or more, then irrespective of whether the same can be repaired and/or restored prior to the Closing Date, Buyer shall have the right and option to either (i) terminate the transaction contemplated herein, or (ii) elect to receive, as its sole and exclusive remedy by reason of such damage, destruction, a Purchase Price reduction in the amount of \$25,000.00 and consummate the transaction contemplated herein as though the damage or destruction had never occurred or been initiated. In all other events or in the event that Buyer elects to consummate the purchase pursuant to clause (ii) above, (xx) all insurance or condemnation proceeds, including business interruption and rental loss proceeds, collected by or paid to Seller prior to the Closing Date, shall be credited against the Purchase Price on Buyer's account or the Purchase Price shall be adjusted by an amount agreed between Buyer and Seller, and (yy) all entitlement to all other insurance or condemnation proceeds arising out of such damage or destruction or proceedings and not collected prior to the Closing Date shall be assigned to Buyer at the Closing. Notwithstanding anything to the contrary in this Agreement, the risk of loss or damage to the Property shall unconditionally shift to the Buyer on the Closing Date. For avoidance of doubt, Buyer and Seller intend that the provisions of this Section 11.1 shall control over any right or remedy to which the Buyer may otherwise be entitled under this Agreement by reason of the occurrence of any event subject to this Section 11.1.

11.2 Attorneys' Fees. In the event that either Party hereto brings an action or other proceeding to enforce or interpret the terms and provisions of this Agreement, the prevailing Party in that action or proceeding shall be entitled to have and recover from the non-prevailing Party all such fees, costs and expenses (including, without limitation, all court costs and reasonable attorneys' fees) as the prevailing Party may suffer or incur in the pursuit or defense of such action or proceeding.

11.3 Reasonable Access to Records and Certain Personnel; Certain Shared Expenses.

(a) In order to facilitate Seller's efforts to administer and close the Case (including, without limitation, the preparation of filings in the Case and state, local and federal tax returns and other filings, reconciliation of claims filed in the Case, removal of corporate and other records and information relating or belonging to entities other than Seller), for a period of four (4) years following the Closing, (i) the Buyer shall permit Seller's counsel and other professionals and counsel for any successor to Seller and its respective professionals (collectively, "**Seller Permitted Access Parties**") reasonable access to the financial and other books and records relating to the Property or the Business and the systems containing such information, books and records, which access shall include (xx) the right of such Seller Permitted Access Parties to copy, at such Seller Permitted Access Parties' expense, such documents and records as they may request in furtherance of the purposes described above, and (yy) Buyer's copying and delivering to the relevant Seller Permitted Access Parties such documents or records as they may request, but only to the extent such Seller Permitted Access Parties furnish Buyer with reasonably detailed written descriptions of the materials to be so copied and the applicable Seller Permitted Access Party reimburses the Buyer for the reasonable costs and expenses thereof, and (ii) Buyer shall provide the Seller Permitted Access Parties (at no cost to the Seller Permitted Access Parties) with reasonable access to the Transferred Employees during regular business hours to assist Seller and the other Seller Permitted Access Parties in their post-Closing activities (including, without limitation, preparation of tax returns), provided that such access does not unreasonably interfere with the Buyer's business operations.

(b) During the fourteen (14) day period immediately following the Closing (the "**Service Cooperation Period**"), Buyer may require certain services from Seller, specifically those described on **Schedule 11.3** attached hereto and incorporated herein by this reference (collectively, the "**Services**"). Upon Buyer's written request and provided that Seller still has or controls the resources necessary to provide the Services to Buyer, Seller shall use commercially reasonable efforts to provide the requested Services or access thereto (in each case without warranty of any kind) during the Service Cooperation Period. For all Services so provided to Buyer, Buyer shall pay Seller upon being invoiced therefor by Seller at the applicable rates set forth on **Schedule 11.3**. Without limiting Seller's remedies in the event that Buyer fails to pay in full any such invoice within three (3) business days of Buyer's receipt thereof, in such event, Seller shall have the right to suspend provision of all Services to Buyer until the applicable invoice is paid in full, together with interest thereon at the rate of 7% per annum on the delinquent amount from the fourth (4th) business day following Buyer's receipt of the invoice until Seller receives payment in full. Should Buyer fail timely to pay more than one invoice during the Service Cooperation Period, Seller shall have the right permanently to cease providing any further Services.

(c) Seller acknowledges that, although Buyer has made copies of such books and records relating to the use and operation of the Property prior to the Closing, Seller is retaining the originals of such historical books and records, and that Buyer may need to have access to the originals of such books and records in order to address issues raised by the counterparties to the Contracts being assigned to and assumed by Buyer hereunder or governmental agencies with jurisdiction over Seller, Buyer, and the Property, and in order to facilitate Buyer's efforts to administer the Property and address such issues, until such time (and only until such

time) as Seller sells, transfers, assigns or otherwise disposes of a material portion of the assets or property retained by Seller following the Closing (it being expressly understood and agreed that the obligations of Seller under this Section 11.3(c) shall automatically lapse, terminate and cease to be of any further force or effect whatsoever upon the consummation of any such transaction), Seller hereby agrees that:

(i) Seller shall permit Buyer and its counsel and other professionals (collectively, “**Buyer Permitted Access Parties**”) reasonable access to the financial and other books and records to the extent relating directly to the Property or the Business (collectively, the “**Relevant Records**”) and the systems containing such Relevant Records, which access shall include (xx) the right of such Buyer Permitted Access Parties to copy, at such Buyer Permitted Access Parties’ expense, such Relevant Records as they may request in furtherance of the purposes described above, and (yy) Seller’s copying and delivering to the relevant Buyer Permitted Access Parties such Relevant Records as they may request, but only to the extent such Buyer Permitted Access Parties furnish Seller with reasonably detailed written descriptions of the materials to be so copied and the applicable Buyer Permitted Access Party reimburses the Seller for the reasonable costs and expenses thereof, and

(ii) Seller shall provide the Buyer Permitted Access Parties (at no cost to the Buyer Permitted Access Parties) with reasonable access to Seller's employees during regular business hours to assist Buyer and the other Buyer Permitted Access Parties in their post-Closing activities (including, without limitation, preparation of tax returns), provided that such access does not unreasonably interfere with the Seller’s business operations.

11.4 Notices. Unless otherwise provided herein, any notice, tender, or delivery to be given hereunder by any Party to the other may be effected by personal delivery in writing, or by registered or certified mail, postage prepaid, return receipt requested or by facsimile, and shall be deemed communicated as of the date of mailing or facsimile transmission (with answer back confirmation of such transmission). Mailed notices shall be addressed as set forth below, but each Party may change his address by written notice in accordance with this Section 11.4.

To Seller: c/o David Tiffany
Chief Restructuring Officer
13727 Noel Road,
Suite 200
Dallas, TX 75240
Facsimile: (214) 276-1417
Email: david.tiffany@cr3partners.com

With a copy to: Laura Davis Jones, Esq.
Pachulski Stang Ziehl & Jones LLP
919 North Market Street, 17th Floor
Wilmington, DE 19899-8705 (courier 19801)

Fax: 302.652.4400
Email: ljones@pszjlaw.com

To Buyer: Sonatech, LLC
Attn: Mr. Mark Shaw
5535 Huntington Drive
Santa Barbara, CA 93111
Facsimile: (805) 966-3320
Email: mtsinsbca@gmail.com

With a copy to: Reicker, Pfau, Pyle & McRoy LLP
Attn: Michael E. Pfau
1421 State Street, Suite B
Santa Barbara, CA 93101
Facsimile: (805) 966-3320
Email: mpfau@rppmh.com

11.5 Entire Agreement. This Agreement and the documents to be executed pursuant hereto contain the entire agreement between the Parties relating to the sale of the Property. Any oral representations or modifications concerning this Agreement or any such other document shall be of no force and effect excepting a subsequent modification in writing, signed by the Party to be charged.

11.6 Modification. This Agreement may be modified, amended or supplemented only by a written instrument duly executed by all the Parties hereto.

11.7 Closing Date. All actions to be taken on the Closing pursuant to this Agreement shall be deemed to have occurred simultaneously, and no act, document or transaction shall be deemed to have been taken, delivered or effected until all such actions, documents and transactions have been taken, delivered or effected.

11.8 Severability. If at any time any provision of this Agreement is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity, or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired thereby, and the remainder of the provisions of this Agreement will remain in full force and effect.

11.9 Captions. All captions and headings contained in this Agreement are for convenience of reference only and shall not be construed to limit or extend the terms or conditions of this Agreement.

11.10 Further Assurances. Each Party hereto will execute, acknowledge and deliver any further assurance, documents and instruments reasonably requested by any other Party for the purpose of giving effect to the transactions contemplated herein or the intentions of the Parties with respect thereto (including, without limitation, to assign to Buyer if requested

post-Closing in connection with the novation of the Navy Contracts all of Seller's right, title and interest in and to the Navy Contracts); provided that nothing herein shall be deemed to require any Party to execute or deliver any such further assurance, document or instrument to the extent that the same could in any material way increase the burdens, obligations or liabilities otherwise imposed upon such Party by this Agreement. Notwithstanding the previous sentence, to the extent it could impose broader obligations on Seller, as to the Navy Contracts, Seller agrees to execute and deliver such documents (in form and content satisfactory to Seller) as may reasonably be requested by the United States Navy or Buyer following the Closing in connection with the novation of the Navy Contracts; provided that, in no event shall Seller be required to execute any document or agreement relating to any such novation (i) which does not include a full release of Seller of and from any and all further liability and obligations arising under or in connection with the Navy Contracts (including, without limitation, any obligation to pay or bear any cure or other amounts that may be owing thereunder) or (ii) which would impose on Seller any liability or any material cost or expense whatsoever. Further, and notwithstanding any other provision of this Agreement to the contrary, Seller hereby (a) acknowledges that, subject to the limitations on the Seller's obligations set forth above in this Section 11.10 and in Section 9.1 hereof) and so long as Buyer performs its obligations hereunder and this Agreement remains in full force and effect and is not terminated by either Buyer or Seller, (i) it is the intent of the Parties hereto to transfer to and vest in Buyer all right, title, and interest in and to the Navy Contracts, and (ii) at the request of the Navy, the Parties are effecting such transfer by novation rather than by Seller's assumption of such Navy Contracts and assignment thereof to Buyer, and (b) in furtherance of the foregoing, covenants and agrees that, Seller will not (and will not seek to) convey, transfer or assign its right, title and interest in and to the Navy Contracts to any third party other than to a successor of Seller which is bound by the covenants set forth in this Section 11.10.

11.11 Waiver. No waiver of any of the provisions of this Agreement shall be deemed, or shall constitute, a waiver of other provisions, whether or not similar, nor shall any waiver constitute a continuing waiver. No waiver shall be binding unless executed in writing by the Party making the waiver.

11.12 Brokerage Obligations. Seller and Buyer each represent and warrant to the other that such Party has incurred no liability to any broker or agent with respect to the payment of any commission or other compensation regarding the consummation of the transaction contemplated hereby. It is agreed that if any claims for commissions, fees or other compensation, including, without limitation, brokerage fees, finder's fees, or commissions are ever asserted against Buyer or Seller in connection with this transaction by any party, all such claims shall be handled and paid by the Party whose actions form the basis of such claim and such Party shall indemnify, defend (with counsel reasonably satisfactory to the Party entitled to indemnification), protect and save and hold the other harmless from and against any and all such claims or demands asserted by any person, firm or corporation in connection with the transaction contemplated hereby.

11.13 Payment of Fees and Expenses. Except as provided in Section 11.2 above, each Party to this Agreement shall be responsible for, and shall pay, all of its own fees and

expenses, including those of its counsel, incurred in the negotiation, preparation and consummation of the Agreement and the transaction described herein.

11.14 Survival. The respective representations and warranties of Buyer and Seller under this Agreement shall lapse and cease to be of any further force or effect effective upon the Closing. Except as provided in the immediately preceding sentence, the covenants and agreements of Seller and Buyer herein, or in any certificates or other documents delivered prior to or at the Closing, shall not be deemed waived or otherwise affected by the Closing.

11.15 Assignments. This Agreement shall not be assigned by any Party hereto without the prior written consent of the other Party hereto, which consent the Parties may grant or withhold in their sole and absolute discretion.

11.16 Binding Effect. Subject to the provisions of Section 11.15, above, this Agreement shall bind and inure to the benefit of the respective heirs, personal representatives, successors, and assigns of the Parties hereto.

11.17 Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

11.18 Restriction on Competition By Buyer Post-Closing. For a period of one (1) year after the Closing Date, Buyer shall not, and shall cause each of its subsidiaries and Affiliates not to, engage in (whether directly or as owner or as a controlling partner, shareholder, lender, investor, consultant, agent or co-venturer) or directly manage persons or entities engaged in, the direct marketing or direct selling to persons who are Customers (as defined below in this Section 11.18) of Seller and/or distribution of any transducers of the type currently produced or proposed to be produced by Seller, nor shall Buyer use any of Seller's Intellectual Property Rights directly or indirectly to reverse engineer, reverse assemble, decompile or disassemble any Seller product that is not provided to Buyer in source code format.

11.18.1 The restrictions of this Section 11.18 shall apply to Buyer and its subsidiaries and Affiliates in each and every country, province, state, city or other political subdivision of the world, including, without limitation, those in which Seller is currently engaged in business or otherwise distributes, licenses, or sells any products.

11.18.2 For purposes of this Section 11.18, the term:

(a) **"Affiliate"** means with respect to any person or entity, any other person or entity directly or indirectly controlling, controlled by or under direct or indirect common control with such first person or entity where "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a person or entity, through the ownership of voting securities, by contract, as trustee, executor or otherwise.

(b) **"Customer"** means and refers to each person and entity described or listed on **Exhibit "H"** attached hereto and incorporated herein by this reference.

11.19 Good Faith. All Parties hereto agree to do all acts and execute all documents required to carry out the terms of this Agreement and to act in good faith with respect to the terms and conditions contained herein before and after Closing.

11.20 Construction. In the interpretation and construction of this Agreement, the Parties acknowledge that the terms hereof reflect extensive negotiations between the Parties and that this Agreement shall not be deemed, for the purpose of construction and interpretation, drafted by either Party hereto.

11.21 Counterparts. This Agreement may be signed in counterparts. The Parties further agree that this Agreement may be executed by the exchange of facsimile signature pages provided that by doing so the Parties agree to undertake to provide original signatures as soon thereafter as reasonable in the circumstances.

11.22 Time is of the Essence. Time is of the essence in this Agreement, and all of the terms, covenants and conditions hereof.

11.23 Interpretation and Rules of Construction. In this Agreement, except to the extent that the context otherwise requires:

11.23.1 when a reference is made in this Agreement to an Article, Section, Exhibit or Schedule, such reference is to an Article or Section of, or an Exhibit or a Schedule to, this Agreement unless otherwise indicated;

11.23.2 the headings and captions used in this Agreement are for reference purposes only and do not affect in any way the meaning or interpretation of this Agreement;

11.23.3 whenever the words “include,” “includes” or “including” are used in this Agreement, they are deemed to be followed by the words “without limitation”;

11.23.4 the words “hereof,” “herein” and “hereunder” and works of similar import, when used in this Agreement, refer to this Agreement as a whole and not to any particular provision of this Agreement;

11.23.5 all terms defined in this Agreement have the defined meanings when used in any certificate or other document made or delivered pursuant hereto, unless otherwise defined therein;

11.23.6 the definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms;


11.23.7 any law defined or referred to herein or in any agreement or instrument that is referred to herein means such law or statute as from time to time amended, modified or supplemented, including by succession of comparable successor laws;

11.23.8 references to a person are also to its permitted successors and assigns and the use of “or” is not intended to be exclusive unless expressly indicated otherwise.

In Witness Whereof, Buyer and Seller have executed this Asset Purchase Agreement as of the day and year first above written.


BUYER:

**Sonatech, LLC, a California
limited liability company**

By: 
Name: MARK T. SHAW
Its: PRESIDENT

SELLER:

**Channel Technologies Group, LLC, a
California limited liability company
and Debtor and Debtor in Possession**

By: 
Name: David Tiffany
Its: **Chief Restructuring Officer**

All SCHEDULES

[To be attached]

Redacted.

Exhibit “A”

ASSIGNMENT AND ASSUMPTION OF LEASES AND CONTRACTS

This Assignment and Assumption of Leases and Contracts (this “**Assignment**”) is entered into as of this ___th day of _____, 2017, between Channel Technologies Group, LLC, a California limited liability company (the “**Assignor**”), Assignor being a Debtor and Debtor in Possession under Case No.9:16-bk-11912-PC in the United States Bankruptcy Court for the Central District of California – Santa Barbara Division, on the one hand, and Sonatech, LLC, a California limited liability company (the “**Assignee**”), on the other hand, with respect to the following facts and circumstances:

A. Assignor, as the Seller, and Assignee, as Buyer, have heretofore entered into that certain Asset Purchase Agreement dated February 22, 2017 (the “**Purchase Agreement**”). Except for terms specifically defined herein, the capitalized terms used in this Assignment shall have the same meanings as capitalized terms used in the Purchase Agreement.

B. Concurrently with the mutual execution and delivery of this Assignment, Assignor and Assignee are consummating the transactions contemplated by the Purchase Agreement. Assignor and Assignee are executing and delivering this Assignment in satisfaction of certain of their respective obligations pursuant to Sections 3.3 and 3.4 of the Purchase Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which Assignor and Assignee hereby acknowledge, Assignor and Assignee hereby agree as follows:

1. Assignment. Effective as of the Closing Date, Assignor hereby assigns to Assignee all of his right, title and interest in and to the Leases and Contracts (collectively, the “**Assigned Contracts**”).
2. Assumption. Effective as of the Closing Date, Assignee hereby accepts the foregoing assignment and assumes and agrees to be bound by the terms and provisions of the Assigned Contracts and to faithfully perform all of Assignor’s obligations thereunder to be performed from and after the Closing Date as though Assignee had been the original contracting Party thereunder.
3. Attorneys’ Fees. In the event that either Party hereto brings an action or other proceeding to enforce or interpret the terms and provisions of this Assignment, the prevailing Party in that action or proceeding shall be entitled to have and recover from the non-prevailing Party therein all such fees, costs and expenses (including, without limitation, all court costs and reasonable attorneys’ fees) as the prevailing Party may suffer or incur in the pursuit or defense of such action or proceeding.

4. Amendments. This Assignment may only be amended by a writing signed by both Assignor and Assignee.

5. Execution in Counterparts. This Assignment may be executed in counterparts and delivered by the delivery of facsimile signatures; provided, however, that if the Parties exchange facsimile signatures, each of them agrees to provide the other with a copy of this Assignment bearing their original signature promptly thereafter.

6. Delivery Pursuant to Purchase Agreement. Notwithstanding anything to the contrary herein, Assignor and Assignee are executing and delivering this Assignment in accordance with and subject to all of the terms and provisions of the Purchase Agreement (including, without limitation, the acknowledgement and disclaimer set forth in Section 7).

7. Governing Law. This Assignment shall be governed by and construed and enforced in accordance with the laws of the State of California.

IN WITNESS WHEREOF, Assignor and Assignee have executed this Assignment as of the day and year first set forth above.

ASSIGNOR:

**Channel Technologies Group, LLC a
California limited liability company
and Debtor and Debtor in Possession**

**By: _____
Name: David Tiffany
Its: Chief Restructuring Officer**

ASSIGNEE:

**Sonatech, STI, LLC, a California
limited liability company**

**By: _____
Name: _____
Its: _____**

Exhibit “B”

BILL OF SALE AND ASSIGNMENT

Pursuant to Section _____ of that certain Asset Purchase Agreement dated February 22, 2017 (the “**Agreement**”), by and between Sonatech, LLC, a California limited liability company (“**Buyer**”), on the one hand, and Channel Technologies Group, LLC, a California limited liability company (“**Seller**”), Seller being a Debtor and Debtor in Possession under Case No. No.9:16-bk-11912-PC in the United States Bankruptcy Court for the Central District of California – Santa Barbara Division, on the other hand, and for good and valuable consideration, the receipt and sufficiency of which Seller hereby expressly acknowledges, Seller hereby sells, transfers, assigns and delivers to Buyer Seller’s right, title and interest in and to (i) the Personal Property, and (ii) the other Assignment Property.

Except for terms specifically defined in this Bill of Sale, all capitalized terms used in herein shall have the same meanings as such terms have when utilized in the Agreement.

Seller covenants and agrees to execute and deliver further instruments of transfer and assignment and take such other action as Buyer may reasonably request to more effectively transfer and assign to and vest in Buyer each of the Personal Property and Assignment Property; provided that nothing herein shall be deemed to require Seller to execute or deliver any such further document or instrument or take any such action to the extent that the same could in any material way increase the burdens, obligations or liabilities otherwise imposed upon Seller by this Agreement.

Notwithstanding anything to the contrary herein, Seller is executing and delivering this Bill of Sale and Assignment in accordance with and subject to all of the terms and provisions of the Agreement (including, without limitation, the acknowledgement and disclaimer set forth in Section 7 of the Agreement).

IN WITNESS WHEREOF, Seller has caused this Bill of Sale and Assignment to be executed as of the _____ day of _____, 2017.

SELLER:

**Channel Technologies Group, LLC a
limited liability company
and Debtor and Debtor in Possession**

By: _____
Name: David Tiffany
Its: Chief Restructuring Officer

Exhibit “C”

ASSIGNMENT OF INTANGIBLE PROPERTY

Channel Technologies Group, LLC, a California limited liability company (“**Assignor**”), Assignor being a Debtor and Debtor in Possession under Case No. No.9:16-bk-11912-PC in the United States Bankruptcy Court for the Central District of California – Santa Barbara Division is executing this Assignment of Intangible Property (this “**Assignment**”) as of this _____, 2017, in favor of Sonatech, LLC, a California limited liability company (the “**Assignee**”), with respect to the following facts and circumstances:

(A) Assignor and Assignee have heretofore entered into that certain Asset Purchase Agreement dated February 22, 2017 (the “**Agreement**”). Except for terms specifically defined in this Assignment, the capitalized terms used in this Assignment shall have the same meanings as such terms when used in the Agreement.

(B) Concurrently with the execution and delivery of this Assignment, Assignor and Assignee are consummating the transactions contemplated by the Agreement.

NOW, THEREFORE, FOR GOOD AND VALUABLE CONSIDERATION, the receipt and sufficiency of which Assignor hereby expressly acknowledges, Assignor hereby assigns, conveys, transfers and sets over unto Assignee, all of its right, title and interest, if any, in and to all Intangible Property. This Assignment shall inure to the benefit of, and be binding upon, the successors, executors, administrators, legal representatives and assigns of Assignor and Assignee.

Notwithstanding anything to the contrary herein, Assignor is executing and delivering this Assignment in accordance with and subject to all of the terms and provisions of the Agreement (including, without limitation, the acknowledgement and disclaimer set forth in Section 7).

In the event that Assignor or Assignee brings an action or other proceeding to enforce or interpret the terms and provisions of this Assignment, the prevailing Party(ies) in that action or proceeding shall be entitled to have and recover from the non-prevailing Party(ies) all such fees, costs and expenses (including, without limitation, all court costs and reasonable attorneys’ fees) as the prevailing Party(ies) may suffer or incur in the pursuit or defense of such action or proceeding.

This Assignment shall be governed by and construed and enforced in accordance with the laws of the State of California.

IN WITNESS WHEREOF, Assignor and Assignee have executed this Assignment as of the ____ day of _____, 2017.

ASSIGNOR:

Channel Technologies Group, LLC a California limited liability company and Debtor and Debtor in Possession

By: _____
Name: David Tiffany
Its: Chief Restructuring Officer

ASSIGNEE:

Sonatech, STI, LLC, a California limited liability company

By: _____
Name: _____
Its: _____

Exhibit "D"

ASSUMPTION AGREEMENT

This Assumption Agreement (this "**Assumption**") is entered into as of this ____ day of _____, 2017, by Sonatech, LLC, a California limited liability company (the "**Buyer**") in favor of Channel Technologies Group, LLC, a California limited liability company (the "**Seller**"), Seller being a Debtor and Debtor in Possession under Case No. No.9:16-bk-11912-PC in the United States Bankruptcy Court for the Central District of California – Santa Barbara Division with respect to the following facts and circumstances:

A. Seller and Buyer have heretofore entered into that certain Asset Purchase Agreement dated February 22, 2017 (the "**Purchase Agreement**"). Except for terms specifically defined herein, the capitalized terms used in this Assumption shall have the same meanings as capitalized terms used in the Purchase Agreement.

B. Concurrently with the execution and delivery of this Assumption, Buyer and Seller is consummating the transactions contemplated by the Purchase Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which Buyer hereby acknowledges, Buyer hereby agrees as follows:

1. Assumption. Effective as of the Closing Date, Buyer hereby assumes and agrees fully and faithfully to perform all of the Assumed Liabilities.
2. Attorneys' Fees. In the event that either Party(ies) hereto brings an action or other proceeding to enforce or interpret the terms and provisions of this Assumption, the prevailing Party(ies) in that action or proceeding shall be entitled to have and recover from the non-prevailing Party(ies) therein all such fees, costs and expenses (including, without limitation, all court costs and reasonable attorneys' fees) as the prevailing Party(ies) may suffer or incur in the pursuit or defense of such action or proceeding.
3. Amendments. This Assumption may only be amended by a writing signed by both Buyer and Seller.
4. Governing Law. This Assumption shall be governed by and construed and enforced in accordance with the laws of the State of California.
5. Execution in Counterparts. This Assumption may be executed in counterparts and delivered by the delivery of facsimile signatures; provided, however, that if the parties exchange facsimile signatures, each of them agrees to provide the other with a copy of this Assumption bearing their original signature promptly thereafter.

IN WITNESS WHEREOF, Buyer has executed this Assumption as of the day and year first set forth above.

BUYER:

**Sonatech, STI, LLC, a California
limited liability company**

By: _____

Name: _____

Its: _____

SELLER:

**Channel Technologies Group, LLC a
California limited liability company
and Debtor and Debtor in Possession**

By: _____

Name: David Tiffany

Its: Chief Restructuring Officer

Exhibit "E"

Sublease

SUBLEASE

1. **Identification and Parties.** This Sublease, dated for reference purposes only January 30, 2017, is made by and between Channel Technologies Group, LLC, a California limited liability company (the “**Sublessor**”) and Chapter 11 Debtor and Debtor-In-Possession in Case No 9:16-bk-11912-PC (the “**Case**”) pending in the United States Bankruptcy Court for the Central District of California-Santa Barbara Division (the “**Bankruptcy Court**”), as sublessor, and Sonatech, LLC, a California limited liability company (the “**Sublessee**”), as sublessee.

2. **Premises and Use.** Sublessor hereby subleases to Sublessee and Sublessee hereby subleases from Sublessor for the term, at the rental and upon all of the terms, covenants and conditions set forth herein or incorporated herein by reference, approximately ten thousand (10,000) rentable square feet of space located in the building commonly known as 879 Ward Drive, Santa Barbara, California 93111 (such building is referred to in this Sublease as the “**Building**”), which premises are delineated by bold outlining on **Exhibit “A”** attached hereto and incorporated herein by this reference (such space is referred to in this Sublease as the “**Premises**”). Sublessee shall use the Premises only for general office, research and development purposes and for no other purpose whatsoever and shall otherwise comply in all respects with the provisions of Paragraph 6 of the Master Lease regarding use of the Premises.

3. **Term.** The term of this Sublease (the “**Term**”) shall commence on Closing Date of the Sonatech APA, tentatively 24 March 2017 (the “**Commencement Date**”) and, unless sooner terminated by mutual agreement of Sublessor and Sublessee or pursuant to any provision hereof, shall terminate on the date (the “**Expiration Date**”) of the termination of the Master Lease (as defined in Paragraph 6, below) for any reason whatsoever, whether involuntary or voluntary (including, without limitation, pursuant to Sublessor’s rejection of the Master Lease in the Case). Upon the Expiration Date, Sublessee shall vacate within the lesser of (x) 7 days’ prior written notice and (y) such shorter period of time as Sublessor may have to vacate the Premises under the circumstances of the termination, and surrender the Premises in the condition required by the terms and provisions of this Sublease and/or the terms and provisions incorporated herein.

Rent.

4.1 Commencing on the Commencement Date and continuing for the balance of the Term, Sublessee shall pay to Sublessor monthly base rent for the Premises at the rate of \$10,000 per month (the “**Base Rent**”). On the Commencement Date, Sublessee shall pay to Sublessor an amount equal to one (1) month’s Base Rent; provided that if the Commencement Date occurs other than on the first day of a month, then the payment due on the Commencement Date shall be a prorated portion of the Base Rent calculated by multiplying the Base Rent by a fraction, the numerator of which shall be number of days remaining (inclusive of the Commencement Date) in the month in which the Commencement Date occurs and the denominator of which shall be the number of days in the month in which the Commencement Date occurs. Likewise, in the event that the Expiration Date occurs for reasons other than a default by Sublessee on a day other than the last day of a calendar month, the Base Rent for such month shall be a prorated portion thereof, calculated by multiplying the Base Rent by a fraction, the numerator of which shall be number of days of such month that have elapsed to and including the Expiration Date and the denominator of which shall be the number of days in the month in which the Expiration Date occurs. In such event, the parties shall make a cash adjustment between them on the Expiration Date such that the Base Rent paid by Sublessee with respect to the last month of the Term is the prorated amount contemplated by the immediately preceding sentence. Sublessee shall pay the Base Rent payable with respect to all months of the Term following the month in which the Commencement Date occurs in advance on the first day of the applicable month.

4.2 In addition to the Base Rent, during the Term, Sublessee shall pay to Sublessor as and when due and payable under the Master Lease Real Property Taxes (as defined in the Master Lease) and the payments required to be made by Sublessor pursuant to Paragraph 11 of the Master Lease (collectively, the “**Pass-Through Obligations**”), but in all events only such portion of the Pass-Through Obligations as is attributable to the Premises. The Base Rent, Sublessee’s share of the Pass-Through Obligations and all other monetary obligations of

Sublessee under the terms and provisions of this Sublease are collectively deemed to be rent (the “**Rent**”). All Rent shall be payable in lawful money of the United States to Sublessor at the address stated herein or to such other persons or at such other places as Sublessor may from time to time designate in writing.

5. **Security Deposit.** Concurrently with the mutual execution of this Sublease, Sublessee shall also deliver to Sublessor a security deposit in the amount of \$10,000 (the “**Security Deposit**”). The Security Deposit shall be held by Sublessor without liability for interest and as security for the performance by Sublessee of Sublessee's covenants and obligations under this Lease, it being expressly understood that the Security Deposit shall not be considered an advance payment of Rent or a measure of Sublessor's damages in case of default by Sublessee. Unless otherwise provided by mandatory nonwaivable law or regulation, Sublessor may commingle the Security Deposit with Sublessor's other funds. Sublessor may, from time to time, without prejudice to any other remedy, use the Security Deposit to the extent necessary to make good any arrearages of Rent or to satisfy any other covenant or obligation of Sublessee hereunder. Following any such application of the Security Deposit, Sublessee shall pay to Sublessor on demand the amount so applied in order to restore the Security Deposit to its original amount. If Sublessee is not in default at the termination of this Sublease, the balance of the Security Deposit remaining after any such application shall be returned by Sublessor to Sublessee. If Sublessor transfers its interest in the Premises during the term of this Lease, Sublessor may assign the Security Deposit to the transferee and thereafter shall have no further liability for the return of such Security Deposit.

6. **Master Lease.** Reference is made to that certain Standard Industrial/Commercial Single-Tenant Lease – Net dated as of December 29, 2011 (the “**Master Lease**”), between Sublessor, , as tenant and Channel Technologies, Inc. (the “**Master Landlord**”), a copy of which is attached as **Exhibit “B”** to this Sublease and incorporated herein by this reference. Any terms capitalized but not defined herein shall have the meaning given to them in the Master Lease. Except for those terms and provisions of the Master Lease described in Paragraph 8 below and incorporated herein by this reference (collectively, the “**Inapplicable Provisions**”), which shall **NOT** apply to or be deemed part of this Sublease, all of Sublessor’s obligations to the Master Landlord under the Master Lease with respect to the Premises shall be obligations of Sublessee to Sublessor under this Sublease. Accordingly, with the exception of the Inapplicable Provisions and any provisions of the Master Lease which are expressly contradicted by the terms and provisions hereof, as between Sublessee and Sublessor, wherever the term “Tenant” is used in the Master Lease, that term shall be deemed to refer to Sublessee and wherever the term “Landlord” is used in the Master Lease, that term shall be deemed to mean and refer to “Sublessor.” This Sublease is and shall be at all times subject and subordinate to the Master Lease. During the Term and for all periods subsequent for obligations that have arisen prior to the expiration or any earlier termination of this Sublease, to the extent applicable to the Premises, Sublessee hereby expressly assumes and agrees to perform and comply with, for the benefit of Sublessor and Master Landlord, each and every obligation of Sublessor under the Master Lease other than those arising under the Inapplicable Provisions (such assumed obligations are referred to herein as the “**Sublessee’s Assumed Obligations**”). Sublessee shall hold Sublessor free and harmless from all liability, judgments, costs, damages, claims or demands, including reasonable attorneys’ fees, arising out of Sublessee’s failure to comply with or perform Sublessee’s Assumed Obligations.

7. **No Assignment.** Notwithstanding any provisions of the Master Lease to the contrary, Sublessee shall have no right to assign this Sublease or to sublease all or any portion of the Premises. Any attempted sublease in violation of this Paragraph 7 and any attempted assignment by Sublessee shall be null, void and of no effect, and shall constitute a material default by Sublessee under this Sublease.

8. **Certain Inapplicable Provisions of Master Lease.** Notwithstanding any provisions of the Master Lease to the contrary, Sublessee shall **NOT** have any (i) right or option to extend the Term; (ii) right or option to expand the Premises or acquire any additional space in the Building (whether by right of offer, right of first refusal, right of first negotiation or otherwise); (iii) right to have any improvements or alterations installed in the Premises by Sublessor or to receive any improvement or refurbishment allowance of any kind; or (iv) right to receive any free rent or other concessions; or (vi) right to name identification or signage on any exterior portion of the

Building or the property on which it is located. Without limiting the foregoing in any way, Paragraphs 51 through 54 of the Master Lease shall be entirely inapplicable to this Sublease and the respective rights and obligations of Sublessee and Sublessor hereunder.

9. **“AS IS” and No Alterations.** Sublessee hereby acknowledges that Sublessee has inspected the Premises and is fully familiar and satisfied with the condition of the Premises and other matters relating to the Premises and its use and that, notwithstanding anything to the contrary in the Master Lease, Sublessor has not made and is not making any representations or warranties whatsoever concerning any of the foregoing or any other matter relating to the Building, the Premises or the Master Lease. Accordingly, on the Commencement Date, Sublessee agrees to and shall accept the Premises “AS IS.” Notwithstanding anything to the contrary in the Master Lease, without limiting in any way Sublessee’s obligations with respect to repair and maintenance of the Premises, Sublessee shall not have the right to make any Alterations, Utility Installations or other modifications to the Premises.

10. **Attorneys’ Fees.** If any party hereto brings an action or other proceeding to enforce the terms hereof or to declare rights hereunder, the prevailing party in any such action or proceeding shall be entitled to have its reasonable attorneys’ fees and costs paid by the non-prevailing party therein.

11. **Interpretation.** As between Sublessor and Sublessee, in the event of any inconsistency between the terms and provisions of the Master Lease and those of this Sublease (including, without limitation, any inconsistency arising by virtue of the fact that any of the provisions of this Sublease are more restrictive than the Master Lease), the terms and provisions of this Sublease shall govern and control.

12. **Entire Agreement.** This Sublease sets forth the entire agreement between Sublessor and Sublessee with respect to the subleasing of the Premises to Sublessee. Any prior or contemporaneous statements, representations, covenants or agreements of any kind or nature that are not expressly set forth herein are superseded by and merged into this Sublease.

13. **Bankruptcy Court Jurisdiction.** BUYER AND SELLER AGREE THAT THE BANKRUPTCY COURT SHALL HAVE EXCLUSIVE JURISDICTION OVER ALL DISPUTES AND OTHER MATTERS RELATING TO (i) THE INTERPRETATION AND ENFORCEMENT OF THIS AGREEMENT; AND/OR (ii) THE PROPERTY, AND BUYER EXPRESSLY CONSENTS TO AND AGREES NOT TO CONTEST SUCH EXCLUSIVE JURISDICTION.

14. **Counterparts.** This Sublease may be signed in one or more counterparts, each of which shall be deemed an original, but all of which together shall comprise one and the same document.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this Sublease as of the day and year first written above.

“SUBLESSOR”

Channel Technologies Group, LLC, a
California limited liability company and
Chapter 11 Debtor and Debtor-in-Possession

By: _____
David Tiffany, Chief Restructuring
Officer

Address For Notice:

c/o David Tiffany
Chief Restructuring Officer
13727 Noel Road, Suite 200
Dallas, TX 75240
Facsimile: (214) 276-1417
Email: david.tiffany@cr3partners.com

“SUBLESSEE”

Sonatech, LLC, a
California limited liability company

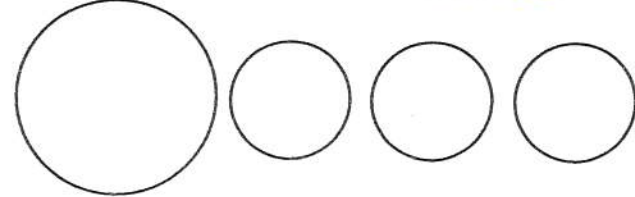
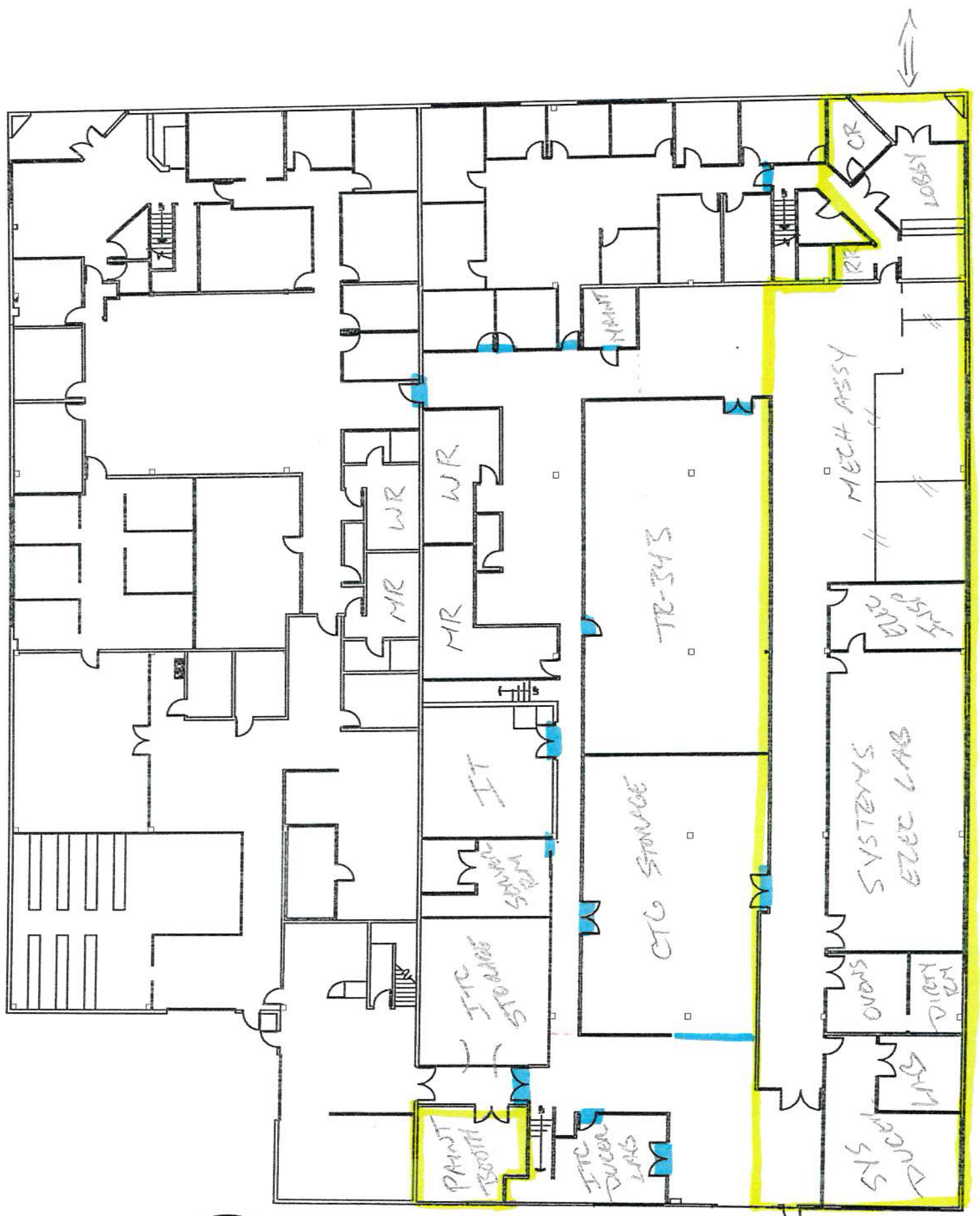
By: _____
Name: Mark T. Shaw
Title: President

Address For Notice:

Attn: Mr. Mark Shaw
5535 Huntington Drive
Santa Barbara, CA 93111
Facsimile: (805) 966-3320
Email: mtsinsbca@gmail.com

(A1)

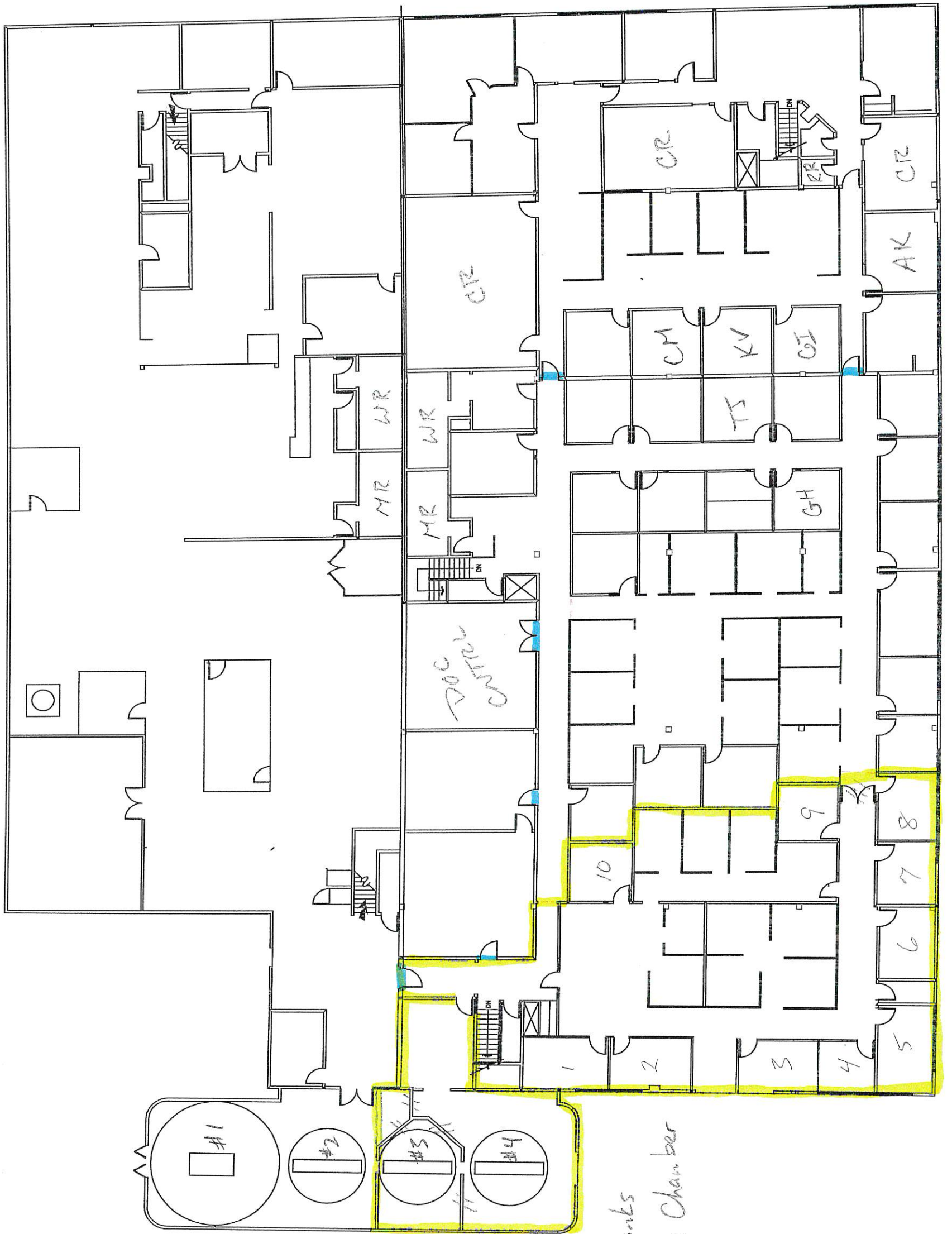
1st FLOOR



- OCCASIONAL ACCESS TO PRINT BOOTH
- AREA ~ 5,900 #
- ACCESS TO OUTSIDE PRESSURE CHAMBER
- 200 #

Exhibit A

A2



~480 #

- Access to Test Tanks
- Outside Pressure Chamber
- ~200 #
- 10 Offices
- 9 cubicles



**AIR COMMERCIAL REAL ESTATE ASSOCIATION
STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT LEASE -- NET
(DO NOT USE THIS FORM FOR MULTI-TENANT BUILDINGS)**

1. Basic Provisions ("Basic Provisions").

1.1 **Parties:** This Lease ("Lease"), dated for reference purposes only December 29, 2011, is made by and between Channel Technologies, Inc., a California corporation ("Lessor") and Channel Technologies Group, LLC, a California limited liability company ("Lessee"), (collectively the "Parties," or individually a "Party").

1.2 **Premises:** That certain real property, including all improvements therein or to be provided by Lessor under the terms of this Lease, and commonly known as 839, 859/861, and 869/879 Ward Drive, Santa Barbara, California 93111, located in the County of Santa Barbara, State of California and generally described as (describe briefly the nature of the property and, if applicable, the "Project", if the property is located within a Project) three buildings comprising a total of approximately 126,293 square feet of space and the land upon which such buildings are located, which is more particularly described on the attached Exhibit A ("Premises"). (See also Paragraph 2)

1.3 **Term:** 12 years and 0 months ("Original Term") commencing on the date hereof ("Commencement Date") and ending on the day before the twelfth anniversary of such date ("Expiration Date"). (See also Paragraph 3)

1.4 **Early Possession:** ~~If the Premises are available Lessee may have non-exclusive possession of the Premises commencing _____ ("Early Possession Date"). (See also Paragraphs 3.2 and 3.3)~~

1.5 **Base Rent:** \$119,978.35 per month ("Base Rent"), payable on the twenty-ninth (29th) day of each month commencing December 29, 2011, provided that in February, Base Rent will be payable on the twenty-eighth (28th) day of the month. (See also Paragraph 4)

If this box is checked, there are provisions in this Lease for the Base Rent to be adjusted. See Paragraphs 53 and 54

1.6 Base Rent and Other Monies Paid Upon Execution:

(a) **Base Rent:** \$119,978.35 for the period first month's Base Rent.

(b) **Security Deposit:** \$ NONE ("Security Deposit"). (See also Paragraph 5)

(c) **Association Fees:** \$ _____ for the period _____

(d) **Other:** \$ _____ for _____

(e) **Total Due Upon Execution of this Lease:** \$ _____

1.7 **Agreed Use:** General office, research, development, manufacturing and assembly. (See also Paragraph 6)

1.8 **Insuring Party:** Lessor/Lessee is the "Insuring Party" unless otherwise stated herein. (See also Paragraph 8)

1.9 **Real Estate Brokers:** (See also Paragraph 15 and 25)

(a) **Representation:** The following real estate brokers (the "Brokers") and brokerage relationships exist in this transaction (check applicable boxes):

- _____ represents Lessor exclusively ("Lessor's Broker");
- _____ represents Lessee exclusively ("Lessee's Broker"); or
- _____ represents both Lessor and Lessee ("Dual Agency").

(b) **Payment to Brokers:** Upon execution and delivery of this Lease by both Parties, Lessor shall pay to the Brokers for the brokerage

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AIR COMMERCIAL REAL ESTATE ASSOCIATION
STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT LEASE -- NET
(DO NOT USE THIS FORM FOR MULTI-TENANT BUILDINGS)

1. Basic Provisions ("Basic Provisions").

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located in the County of Santa Barbara, State of California
and generally described as (describe briefly the nature of the property and, if applicable, the "Project", if the property is located within a Project)
three buildings comprising a total of approximately 126,293 square feet of space and the
land upon which such buildings are located, which is more particularly described on the
attached Exhibit A ("Premises"). (See also Paragraph 2)

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("Commencement Date") and ending on the day before the twelfth anniversary of such date ("Expiration
Date"). (See also Paragraph 3)

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(e) Total Due Upon Execution of this Lease: \$

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(See also Paragraph 6)

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- represents Lessor exclusively ("Lessor's Broker");
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represents both Lessor and Lessee ("Dual Agency").

(b) Payment to Brokers: Upon execution and delivery of this Lease by both Parties, Lessor shall pay to the Brokers for the brokerage

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~~services rendered by the Broker, the fee agreed to in the attached separate written agreement or if no such agreement is attached, the sum of _____ or _____% of the total Base Rent payable for the Original Term, the sum of _____ or _____ of the total Base Rent payable during any period of time that the Lessee occupies the Premises subsequent to the Original Term, and/or the sum of _____ or _____% of the purchase price in the event that the Lessee or anyone affiliated with Lessee acquires from Lessor any rights to the Premises.~~

~~1.10 Guarantor. The obligations of the Lessee under this Lease are to be guaranteed by _____ ("Guarantor"). (See also Paragraph 37)~~

1.11 Attachments. Attached hereto are the following, all of which constitute a part of this Lease:

- an Addendum consisting of Paragraphs 51 through 54 ;
- a plot plan depicting the Premises;
- a current set of the Rules and Regulations;
- a Work Letter;
- other (specify): Exhibit A - Legal Description of the Premises

2. Premises.

2.1 Letting. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. While the approximate square footage of the Premises may have been used in the marketing of the Premises for purposes of comparison, the Base Rent stated herein is NOT tied to square footage and is not subject to adjustment should the actual size be determined to be different. Note: Lessee is advised to verify the actual size prior to executing this Lease.

2.2 Condition. Lessee acknowledges that it is in possession of the Premises and has accepted the Premises in their "as-is" condition existing on the Commencement Date ~~Lessor shall deliver the Premises to Lessee broom clean and free of debris on the Commencement Date or the Early Possession Date, whichever first occurs ("Start Date"), and without limiting the generality of the foregoing, Lessee further agrees acknowledges that Lessee shall be responsible for correcting or repairing any defects in, so long as the required service contracts described in Paragraph 7.4(b) below are obtained by Lessee and in effect within thirty days following the Start Date, warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems ("HVAC"), loading doors, sump pumps, if any, and all other such elements in the Premises, and other than those constructed by Lessee, are shall be in good operating condition on said date, that the structural elements of the roof, bearing walls and foundation of any buildings on the Premises (the "Building") which may exist as of the Commencement Date, are shall be free of material defects, and that the Premises do not contain hazardous levels of any mold or fungi defined as toxic under applicable state or federal law. If a non-compliance with said warranty exists as of the Start Date, or if one of such systems or elements should malfunction or fail within the appropriate warranty period, Lessor shall, as Lessor's sole obligation with respect to such matter, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, malfunction or failure, rectify same at Lessor's expense. The warranty periods shall be as follows: (i) 6 months as to the HVAC systems, and (ii) 30 days as to the remaining systems and other elements of the Building. If Lessee does not give Lessor the required notice within the appropriate warranty period, correction of any such non-compliance, malfunction or failure shall be the obligation of Lessee at Lessee's sole cost and expense.~~

2.3 Compliance. Lessor warrants that to the best of its knowledge the improvements on the Premises comply with the building codes, applicable laws, covenants or restrictions of record, regulations, and ordinances ("Applicable Requirements") that were in effect at the time that each improvement, or portion thereof, was constructed. Said warranty does not apply to the use to which Lessee will put the Premises, modifications which may be required by the Americans with Disabilities Act or any similar laws as a result of Lessee's use (see Paragraph 50), or to any Alterations or Utility Installations (as defined in Paragraph 7.3(a)) made or to be made by Lessee. NOTE: Lessee is responsible for determining whether or not the Applicable Requirements, and especially the zoning, are appropriate for Lessee's intended use, and acknowledges that past uses of the Premises may no longer be allowed. If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within 6 months following the Start Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense. If the Applicable Requirements are hereafter changed so as to require during the term of this Lease the construction of an addition to or an alteration of the Premises and/or Building, the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the Unit, Premises and/or Building, ("Capital Expenditure"), Lessor and Lessee shall allocate the cost of such work as follows: Lessee shall be fully responsible for the cost thereof.

(a) As used in this Paragraph 2.3, the term "Capital Expenditures" shall mean replacement of the roof, roof membrane, foundation,

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structural walls, HVAC system, or other structural portion of the Premises.

(b) If any Capital Expenditures are required during the Original Term of this Lease, Lessee shall be fully responsible therefor; provided, however, if any Capital Expenditure is required during or after the last twelve (12) months of the Original Term of this Lease, and such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (for example, if such Capital Expenditure involves a roof replacement, new governmental requirements such as seismic modifications, replacement of the HVAC system), then Lessor shall pay for such Capital Expenditure and such Capital Expenditure shall be amortized over its useful life as determined in accordance with generally accepted accounting principles, and Lessee shall only be obligated to pay the amortized portion of such Capital Expenditure relating to the last twelve (12) months of the Original Term of this Lease.

~~(a) Subject to Paragraph 2.3(c) below, if such Capital Expenditures are required as a result of the specific and unique use of the Premises by Lessee as compared with uses by tenants in general, Lessee shall be fully responsible for the cost thereof, provided, however that if such Capital Expenditure is required during the last 2 years of this Lease and the cost thereof exceeds 6 months' Base Rent, Lessee may instead terminate this Lease unless Lessor notifies Lessee, in writing, within 10 days after receipt of Lessee's termination notice that Lessor has elected to pay the difference between the actual cost thereof and an amount equal to 6 months' Base Rent. If Lessee elects termination, Lessee shall immediately cease the use of the Premises which requires such Capital Expenditure and deliver to Lessor written notice specifying a termination date at least 90 days thereafter. Such termination date shall, however, in no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure.~~

~~(b) If such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (such as, governmentally mandated seismic modifications), then Lessor shall pay for such Capital Expenditure and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease or any extension thereof, on the date that on which the Base Rent is due, an amount equal to 1/144th of the portion of such costs reasonably attributable to the Premises. Lessee shall pay interest on the balance but may prepay its obligation at any time. If, however, such Capital Expenditure is required during the last 2 years of this Lease or if Lessor reasonably determines that it is not economically feasible to pay its share thereof, Lessor shall have the option to terminate this Lease upon 90 days prior written notice to Lessee unless Lessee notifies Lessor, in writing, within 10 days after receipt of Lessor's termination notice that Lessee will pay for such Capital Expenditure. If Lessor does not elect to terminate, and fails to tender its share of any such Capital Expenditure, Lessee may advance such funds and deduct same, with interest, from Rent until Lessor's share of such costs have been fully paid. If Lessee is unable to finance Lessor's share, or if the balance of the Rent due and payable for the remainder of this Lease is not sufficient to fully reimburse Lessee on an offset basis, Lessee shall have the right to terminate this Lease upon 30 days written notice to Lessor.~~

~~(c) Notwithstanding the above, the provisions concerning Capital Expenditures are intended to apply only to non-voluntary, unexpected, and new Applicable Requirements. If the Capital Expenditures are instead triggered by Lessee as a result of an actual or proposed change in use, change in intensity of use, or modification to the Premises then, and in that event, Lessee shall either: (i) immediately cease such changed use or intensity of use and/or take such other steps as may be necessary to eliminate the requirement for such Capital Expenditure, or (ii) complete such Capital Expenditure at its own expense. Lessee shall not, however, have any right to terminate this Lease.~~

2.4 Acknowledgements. Lessee acknowledges that: (a) it has been given an opportunity to inspect and measure the Premises, (b) it has been advised by Lessor and/or Brokers to satisfy itself with respect to the size and condition of the Premises (including but not limited to the electrical, HVAC and fire sprinkler systems, security, environmental aspects, and compliance with Applicable Requirements and the Americans with Disabilities Act), and their suitability for Lessee's intended use, (c) Lessee has made such investigation as it deems necessary with reference to such matters and assumes all responsibility therefor as the same relate to its occupancy of the Premises, (d) it is not relying on any representation as to the size of the Premises made by Brokers or Lessor, (e) the square footage of the Premises was not material to Lessee's decision to lease the Premises and pay the Rent stated herein, and (f) neither Lessor, Lessor's agents, nor Brokers have made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease or in the Stock Equity Purchase Agreement dated as of [December ____], 2011], by and between Lessee and [Lessor] Lessor and BW Pico Holdings LLC (the "Purchase Agreement"). In addition, Lessor acknowledges that: (i) Brokers have made no representations, promises or warranties concerning Lessee's ability to honor the Lease or suitability to occupy the Premises, and (ii) it is Lessor's sole responsibility to investigate the financial capability and/or suitability of all proposed tenants. Nothing in this Lease shall reduce or diminish the representations and warranties made by Channel Technologies, Inc. under the Purchase Agreement.

~~2.5 Lessee as Prior Owner/Occupant. The warranties made by Lessor in Paragraph 2 shall be of no force or effect if immediately prior to the Start Date Lessee was the owner or occupant of the Premises. In such event, Lessee shall be responsible for any necessary corrective work.~~

3. Term.

3.1 Term. The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 Early Possession. Any provision herein granting Lessee Early Possession of the Premises is subject to and conditioned upon the Premises being available for such possession prior to the Commencement Date. Any grant of Early Possession only conveys a non-exclusive right to


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occupy the Premises. If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such Early Possession. All other terms of this Lease (including but not limited to the obligations to pay Real Property Taxes and insurance premiums and to maintain the Premises) shall be in effect during such period. Any such Early Possession shall not affect the Expiration Date.

3.3 Delay in Possession. Lessor agrees to use its best commercially reasonable efforts to deliver possession of the Premises to Lessee by the Commencement Date. If, despite said efforts, Lessor is unable to deliver possession by such date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or change the Expiration Date. Lessee shall not, however, be obligated to pay Rent or perform its other obligations until Lessor delivers possession of the Premises and any period of rent abatement that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed under the terms hereof, but minus any days of delay caused by the acts or omissions of Lessee. If possession is not delivered within 60 days after the Commencement Date, as the same may be extended under the terms of any Work Letter executed by Parties, Lessee may, at its option, by notice in writing within 10 days after the end of such 60 day period, cancel this Lease, in which event the Parties shall be discharged from all obligations hereunder. If such written notice is not received by Lessor within said 10 day period, Lessee's right to cancel shall terminate. If possession of the Premises is not delivered within 120 days after the Commencement Date, this Lease shall terminate unless other agreements are reached between Lessor and Lessee, in writing.

3.4 Lessee Compliance. Lessor shall not be required to deliver possession of the Premises to Lessee until Lessee complies with its obligation to provide evidence of insurance (Paragraph 8.5). Pending delivery of such evidence, Lessee shall be required to perform all of its obligations under this Lease from and after the Start Date, including the payment of Rent, notwithstanding Lessor's election to withhold possession pending receipt of such evidence of insurance. Further, if Lessee is required to perform any other conditions prior to or concurrent with the Start Date, the Start Date shall occur but Lessor may elect to withhold possession until such conditions are satisfied.

4. Rent.

4.1 Rent Defined. All monetary obligations of Lessee to Lessor under the terms of this Lease (except for the Security Deposit) are deemed to be rent ("Rent").

4.2 Payment. Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States, without offset or deduction (except as specifically permitted in this Lease), on or before the day on which it is due. All monetary amounts shall be rounded to the nearest whole dollar. In the event that any invoice prepared by Lessor is inaccurate such inaccuracy shall not constitute a waiver and Lessee shall be obligated to pay the amount set forth in this Lease. Rent for any period during the term hereof which is for less than one full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating. In the event that any check, draft, or other instrument of payment given by Lessee to Lessor is dishonored for any reason, Lessee agrees to pay to Lessor the sum of \$25 in addition to any Late Charge and Lessor, at its option, may require all future Rent be paid by cashier's check. Payments will be applied first to accrued late charges and attorney's fees, second to accrued interest, then to Base Rent, Insurance and Real Property Taxes, and any remaining amount to any other outstanding charges or costs.

4.3 Association Fee. In addition to the Base Rent, Lessee shall pay to Lessor each month an amount equal to any owner's association or condominium fees levied or assessed against the Premises. Said monies shall be paid at the same time and in the same manner as the Base Rent.

5. Security Deposit. Lessee shall deposit with Lessor upon execution hereof the Security Deposit as security for Lessee's faithful performance of its obligations under this Lease. If Lessee fails to pay Rent, or otherwise Defaults under this Lease, Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount already due Lessor, for Rents which will be due in the future, and/or to reimburse or compensate Lessor for any liability, expense, loss or damage which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of the Security Deposit, Lessee shall within 10 days after written request therefor deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. If the Base Rent increases during the term of this Lease, Lessee shall, upon written request from Lessor, deposit additional monies with Lessor so that the total amount of the Security Deposit shall at all times bear the same proportion to the increased Base Rent as the Initial Security Deposit bore to the Initial Base Rent. Should the Agreed Use be amended to accommodate a material change in the business of Lessee or to accommodate a sublessee or assignee, Lessor shall have the right to increase the Security Deposit to the extent necessary, in Lessor's reasonable judgment, to account for any increased wear and tear that the Premises may suffer as a result thereof. If a change in control of Lessee occurs during this Lease and following such change the financial condition of Lessee is, in Lessor's reasonable judgment, significantly reduced, Lessee shall deposit such additional monies with Lessor as shall be sufficient to cause the Security Deposit to be at a commercially reasonable level based on such change in financial condition. Lessor shall not be required to keep the Security Deposit separate from its general accounts. Within 90 days after the expiration or termination of this Lease, Lessor shall return that portion of the Security Deposit not used or applied by Lessor. No part of


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~~the Security Deposit shall be considered to be held in trust, to bear interest or to be prepayment for any monies to be paid by Lessee under this Lease.~~

6. Use.

6.1 Use. Lessee shall use and occupy the Premises only for the Agreed Use, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates damage, waste or a nuisance, or that disturbs occupants of or causes damage to neighboring premises or properties. ~~Other than guide, signal and seeing eye dogs, Lessee shall not keep or allow in the Premises any pets, animals, birds, fish, or reptiles.~~ Lessor shall not unreasonably withhold or delay its consent to any written request for a modification of the Agreed Use, so long as the same will not impair the structural integrity of the improvements on the Premises or the mechanical or electrical systems therein, and/or is not significantly more burdensome to the Premises. If Lessor elects to withhold consent, Lessor shall within 7 days after such request give written notification of same, which notice shall include an explanation of Lessor's objections to the change in the Agreed Use.

6.2 Hazardous Substances.

(a) Reportable Uses Require Consent. The term "Hazardous Substance" as used in this Lease shall mean any product, substance, or waste whose presence, use, manufacture, disposal, transportation, or release, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, and/or crude oil or any products, by-products or fractions thereof. Lessee shall not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Substances without providing Lessor with prior written notice thereof pursuant to Section 6.2(b) below ~~the express prior written consent of Lessor and timely compliance (at Lessee's expense) with all Applicable Requirements.~~ "Reportable Use" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and/or (iii) the presence at the Premises of a Hazardous Substance with respect to which any Applicable Requirements requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessor acknowledges that Lessee's current and past use of the Premises has involved and continues to involve the use of Hazardous Substances. Accordingly, "Reportable Use" shall not include the presence of, or the use, generation, possession, storage, transportation or disposal of, any Hazardous Substances or storage tanks of the types and for the purposes currently or previously used by Lessee in connection with its operations at the Premises. By signing this Lease, Lessor hereby consents to Lessee's continued use, generation, possession, storage, transportation or disposal of Hazardous Substances and storage tanks of the types and for the purposes currently or previously used by Lessee in connection with its operations at the Premises, as long as the use, storage, transportation and disposal of such Hazardous Substances and storage tanks comply with all Applicable Requirements. Notwithstanding the foregoing, Lessee may use any ordinary and customary materials reasonably required to be used in the normal course of the Agreed Use, ordinary office supplies (copier toner, liquid paper, glue, etc.) and common household cleaning materials, so long as such use is in compliance with all Applicable Requirements, is not a Reportable Use, and does not expose the Premises or neighboring property to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage, contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before Lease expiration or termination) of protective modifications (such as concrete encasements) and/or increasing the Security Deposit.

(b) Duty to Inform Lessor. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises from and after the Commencement Date, other than Hazardous Substances of the types and for the purposes currently or previously used by Lessee in connection with its operations at the Premises, and, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor, and provide Lessor with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Substance.

(c) Lessee Remediation. Subject to Lessor's obligations relating to Hazardous Substances as stated in the Purchase Agreement, from and after the Commencement Date, Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, comply with all Applicable Requirements and take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, but only to the extent required by Applicable Requirements, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises or neighboring properties, that was caused or materially contributed to by Lessee from and after the Commencement Date, or pertaining to or involving any Hazardous Substance brought onto the Premises from and after the Commencement Date ~~during the term of this Lease~~, by or for Lessee, or any third party.

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(d) Lessee Indemnification. Lessee shall indemnify, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees ("Claims") arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee, or any third party from and after the Commencement Date (provided, however, that Lessee shall have no liability under this Lease with respect to underground migration of any Hazardous Substance under the Premises from adjacent properties not caused or contributed to by Lessee). Lessee's obligations shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement. The foregoing indemnification specifically excludes Claims relating to Hazardous Substances Materials that existed in, on, above, under or about the Premises prior to the Commencement Date.

~~(e) Lessor Indemnification. Lessor shall retain responsibility and pay for investigations or remediation measures required by governmental agencies having jurisdiction with respect to the existence of Hazardous Substances on the Premises prior to the Commencement Date and shall indemnify, defend, reimburse and hold Lessee, its employees and lenders, harmless from and against any and all environmental damages, including the cost of remediation, which result from Hazardous Substances which existed on the Premises prior to the Commencement Date, all as provided in the Purchase Agreement.~~ Lessor Indemnification. Lessor and its successors and assigns shall indemnify, defend, reimburse and hold Lessee, its employees and lenders, harmless from and against any and all environmental damages, including the cost of remediation, which result from Hazardous Substances which existed on the Premises prior to Lessee's occupancy or which are caused by the gross negligence or willful misconduct of Lessor, its agents or employees. Lessor's obligations, as and when required by the Applicable Requirements, shall include, but not be limited to, the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease.

(f) Investigations and Remediations. Lessor shall retain the responsibility and pay for any investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the Premises prior to Lessee's occupancy, unless such remediation measure is required as a result of Lessee's use (including "Alterations" as defined in paragraph 7.3(a) below) of the Premises, in which event Lessee shall be responsible for such payment. Lessee shall cooperate fully in any such activities investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the Premises at the request of Lessor, including allowing Lessor and Lessor's agents to have reasonable access to the Premises (subject to the limits described in Section 32 below) at reasonable times in order to carry out Lessor's investigative and remedial responsibilities any such activities.

(g) Lessor Termination Option. If a Hazardous Substance Condition (see Paragraph 9.1(e)) occurs during the term of this Lease, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by the Applicable Requirements and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 6.2(d) and Paragraph 13), Lessor may, at Lessor's option, shall either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect unless terminated by Lessee as provided below, or (ii) if the estimated cost to remediate such condition exceeds 12 times the then monthly Base Rent or \$1,000,000 \$400,000, whichever is greater, give written notice to Lessee, within 30 days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition, of Lessor's desire to terminate this Lease as of the date 60 days following the date of such notice. In the event Lessor elects to give a termination notice, Lessee may, within 10 days thereafter, give written notice to Lessor of Lessee's commitment to pay the amount by which the cost of the remediation of such Hazardous Substance Condition exceeds an amount equal to 12 times the then monthly Base Rent or \$1,000,000 \$400,000, whichever is greater. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within 30 days following such commitment. In such event, this Lease shall continue in full force and effect, and Lessor shall proceed to make such remediation as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the time provided, this Lease shall terminate as of the date specified in Lessor's notice of termination. If Lessor does not terminate this Lease as provided in this paragraph, if the Hazardous Substance Condition or the required or proposed remediation thereof would materially and adversely affect Lessee's use of the Premises for its intended purposes, Lessee may elect to terminate this Lease by providing Lessor with written notice within thirty (30) days after Lessee's receipt of notice of Lessor's proposed remediation plan, or within sixty (60) days after Lessee's receipt of notice of the Hazardous Substance Condition, whichever is later. For the avoidance of doubt, the Hazardous Substance Condition existing on the Commencement Date shall not qualify as a Hazardous Substance Condition under this Lease.

6.3 Lessee's Compliance with Applicable Requirements. Except as otherwise provided in this Lease, Lessee shall, at Lessee's sole expense, fully, diligently and in a timely manner, materially comply with all Applicable Requirements, and the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants which relate in any manner to the such Requirements, without regard to whether such Requirements are now in effect or become effective after the Start Date. Lessee shall, within

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40 30 days after receipt of reasonable Lessee's written request from Lessor, provide Lessor with copies of all permits and other reasonable documents, and other reasonable information evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving the failure of Lessee or the Premises to comply with any Applicable Requirements. Likewise, Lessee shall immediately give written notice to Lessor of: (i) any water damage to the Premises and any suspected seepage, pooling, dampness or other condition conducive to the production of mold; or (ii) any mustiness or other odors that might indicate the presence of mold in the Premises.

6.4 **Inspection; Compliance.** Lessor and Lessor's "Lender" (as defined in Paragraph 30) and consultants shall have the right to enter into Premises at any time, in the case of an emergency, and otherwise at reasonable times after reasonable notice, (subject to the limits described in Section 52 below) for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease. Lessor and Lessor's Lender and consultants shall take all commercially reasonable steps not to interfere with the operation of Lessee's Lessee's business. The cost of any such inspections shall be paid by Lessor, unless a violation of Applicable Requirements, or a Hazardous Substance Condition (see paragraph 9.1) is found to exist or be imminent, or the inspection is requested or ordered by a governmental authority. In such case, Lessee shall upon request reimburse Lessor for the cost of such inspection, so long as such inspection is reasonably related to the violation or contamination. In addition, Lessee shall provide copies of all relevant material safety data sheets (MSDS) to Lessor within 10 days of the receipt of a written request therefor.

7. **Maintenance; Repairs, Utility Installations; Trade Fixtures and Alterations.**

7.1 **Lessee's Obligations.**

(a) **In General.** Subject to the provisions of Paragraph 2.2 (Condition), 2.3 (Compliance), 6.3 (Lessee's Compliance with Applicable Requirements), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole expense, keep the Premises, Utility Installations (intended for Lessee's exclusive use, no matter where located), and Alterations in good order, condition and repair (whether or not the portion of the Premises requiring repairs, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, but not limited to, all equipment or facilities, such as plumbing, HVAC equipment, electrical, lighting facilities, boilers, pressure vessels, fire protection system, fixtures, walls (interior and exterior), foundations, ceilings, roofs, roof drainage systems, floors, windows, doors, plate glass, skylights, landscaping, driveways, parking lots, fences, retaining walls, signs, sidewalks and parkways located in, on, or adjacent to the Premises. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices, specifically including the procurement and maintenance of the service contracts required by Paragraph 7.1(b) below. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair. Lessee shall, during the term of this Lease, keep the exterior appearance of the Building in a first-class condition (including, e.g. graffiti removal) consistent with the exterior appearance of other similar facilities of comparable age and size in the vicinity, including, when necessary, the exterior repainting of the Building.

(b) **Service Contracts.** Lessee shall, at Lessee's sole expense, either procure and maintain contracts, with copies to Lessor, in customary form and substance for, and with contractors specializing and experienced in the maintenance of the following equipment and improvements, if any, if and when installed on the Premises or retain reasonably qualified on-site staff to maintain: (i) HVAC equipment, (ii) boiler, and pressure vessels, (iii) fire extinguishing systems, including fire alarm and/or smoke detection, (iv) landscaping and irrigation systems, (v) roof covering and drains, and (vi) clarifiers. However, Lessor reserves the right, upon notice to Lessee, to procure and maintain any or all of such service contracts, and Lessee shall reimburse Lessor, upon demand, for the cost thereof.

(c) **Failure to Perform.** If Lessee fails to perform Lessee's material obligations under this Paragraph 7.1, Lessor may enter upon the Premises after 10 days' prior written notice to Lessee (except in the case of an emergency, in which case no notice shall be required), perform such obligations on Lessee's behalf, and put the Premises in good order, condition and repair, and Lessee shall promptly pay to Lessor a sum equal to 110% 446% of the cost thereof.

(d) **Replacement.** Subject to Lessee's indemnification of Lessor as set forth in Paragraph 8.7 below, and without relieving Lessee of liability resulting from Lessee's failure to exercise and perform good maintenance practices, if an item described in Paragraph 7.1(b) cannot be repaired other than at a cost which is in excess of 50% of the cost of replacing such item, then such item shall be replaced by Lessor, and the cost thereof shall be prorated between the Parties and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease, on the date on which Base Rent is due, an amount equal to the product of multiplying the cost of such replacement by a fraction, the numerator of which is one, and the denominator of which is 144 (i.e. 1/144th of the cost per month). Lessee shall pay interest on the unamortized balance but may prepay its obligation at any time.

7.2 **Lessor's Obligations.** Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance), 9 (Damage or Destruction) and 14 (Condemnation), it is intended by the Parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises, or the equipment therein, all of which obligations are intended to be that of the Lessee. It is the intention of the Parties that the terms of this Lease

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govern the respective obligations of the Parties as to maintenance and repair of the Premises, and they expressly waive the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease.

7.3 Utility Installations; Trade Fixtures; Alterations.

(a) **Definitions.** The term "Utility Installations" refers to all floor and window coverings, air and/or vacuum lines, power panels, electrical distribution, security and fire protection systems, communication cabling, lighting fixtures, HVAC equipment, plumbing, and fencing in or on the Premises. The term "Trade Fixtures" shall mean Lessee's machinery, and equipment and other personal property used in connection with Lessee's activities at the Premises that can be removed without doing material damage to the Premises. The term "Alterations" shall mean any modification of the improvements, other than Utility Installations or Trade Fixtures, whether by addition or deletion. "Lessee Owned Alterations and/or Utility Installations" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a).

(b) **Consent.** Lessee shall not make any Alterations or Utility Installations to the Premises without Lessor's prior written consent. Lessee may, however, make non-structural Alterations or Utility Installations to the interior of the Premises (excluding the roof) without such consent but upon notice to Lessor, as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing walls, will not affect the electrical, plumbing, HVAC, and/or life safety systems, and the cost of any such non-structural Alteration or Utility Installation does not exceed three (3) two (2) months' Base Rent and the cumulative cost thereof during this Lease as extended does not exceed a sum equal to 3 months' Base Rent in the aggregate or a sum equal to one month's Base Rent in any one year. Notwithstanding the foregoing, Lessee shall not make or permit any roof penetrations and/or install anything on the roof without the prior written approval of Lessor, so long as the fees and costs of the contractor chosen by Lessor are not greater than the estimates provided by other contractors obtained by Lessee. Lessor may, as a precondition to granting such approval, require Lessee to utilize a contractor chosen and/or approved by Lessor. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. Consent shall be deemed conditioned upon Lessee's: (i) acquiring all applicable governmental permits, (ii) furnishing Lessor with copies of both the permits and the plans and specifications prior to commencement of the work, and (iii) compliance with all conditions of said permits and other Applicable Requirements in a prompt and expeditious manner. Any Alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Lessee shall promptly upon completion furnish Lessor with as-built plans and specifications. ~~For work which costs an amount in excess of one month's Base Rent, Lessor may condition its consent upon Lessee providing a lien and completion bond in an amount equal to 150% of the estimated cost of such Alteration or Utility Installation and/or upon Lessee's posting an additional Security Deposit with Lessor.~~

(c) **Liens; Bonds.** Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than 10 days notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof. If Lessor shall require, Lessee shall furnish a surety bond in an amount sufficient to cause such lien to be removed from the Premises, ~~equal to 150% of the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same.~~ ~~If Lessor elects to participate in any such action, Lessee shall pay Lessor's reasonable attorneys' fees and costs.~~

7.4 Ownership; Removal; Surrender; and Restoration.

(a) **Ownership.** Subject to Lessor's right to require removal or elect ownership as hereinafter provided, all Alterations and Utility Installations (but specifically excluding Trade Fixtures) made by Lessee shall be the property of Lessee, but considered a part of the Premises. ~~Lessor may, at any time, elect in writing to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations.~~ Unless otherwise instructed per paragraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations (but specifically excluding the Trade Fixtures) shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises.

(b) **Removal.** By delivery to Lessee of written notice from Lessor not earlier than 90 and not later than 30 days prior to the end of the term of this Lease, Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or termination of this Lease. Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent.

(c) **Surrender; Restoration.** Lessee shall surrender the Premises by the Expiration Date or any earlier termination date, with all of the improvements, parts and surfaces thereof broom clean and free of debris, and in commercially reasonable good operating order, condition and state of repair, ordinary wear and tear excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by commercially reasonable good maintenance practice. Notwithstanding the foregoing, if this Lease is for 12 months or less, then Lessee shall surrender the Premises in the same condition as delivered to Lessee on the Start Date with NO allowance for ordinary wear and tear. Lessee shall repair any damage occasioned by the installation, maintenance or removal of Trade Fixtures, Lessee owned Alterations and/or Utility Installations, furnishings, and


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equipment as well as the removal of any storage tank installed by or for Lessee. Lessee shall completely remove from the Premises any and all Hazardous Substances brought onto the Premises by or for Lessee, or any third party (except Hazardous Substances which were deposited via underground migration from areas outside of the Premises) to levels necessary to cause the Premises to comply with Applicable Requirements. ~~even if such removal would require Lessee to perform or pay for work that exceeds statutory requirements.~~ Any remediation of Hazardous Materials in the improvements, soils or water of the Premises shall be as required by Applicable Law. Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee. Any personal property of Lessee not removed on or before the Expiration Date or any earlier termination date shall be deemed to have been abandoned by Lessee and may be disposed of or retained by Lessor as Lessor may desire. The failure by Lessee to timely vacate the Premises pursuant to this Paragraph 7.4(c) without the express written consent of Lessor shall constitute a holdover under the provisions of Paragraph 26 below.

8. Insurance; Indemnity. ~~NOTE: ALL OF ARTICLE 8 IS SUBJECT TO REVIEW BY LESSEE'S INSURANCE CARRIER.~~

8.1 Payment For Insurance. Lessee shall pay for all insurance required under Paragraph 8, ~~except to the extent of the cost attributable to liability insurance carried by Lessor under Paragraph 8.2(b) in excess of \$2,000,000 per occurrence.~~ Premiums for policy periods commencing prior to or extending beyond the Lease term shall be prorated to correspond to the Lease term. Payment shall be made by Lessee ~~directly to the insurer or insurers, to Lessor within 10 days following receipt of an invoice.~~

8.2 Liability Insurance.

(a) Carried by Lessee. Lessee shall obtain and keep in force a Commercial General Liability policy of insurance protecting Lessee and Lessor as an additional insured against claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than \$2,000,000 ~~\$1,000,000~~ per occurrence with an annual aggregate of not less than \$5,000,000 ~~\$2,000,000~~. Lessee shall add Lessor as an additional insured by means of an endorsement at least as broad as the Insurance Service Organization's "Additional Insured-Managers or Lessors of Premises" Endorsement. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. Lessee shall provide an endorsement on its liability policy(ies) which provides that its insurance shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only. ~~Notwithstanding the foregoing, Lessee may elect to carry a policy of Commercial General Liability Insurance with limits of One Million Dollars (\$1,000,000) per occurrence and an annual aggregate of Two Million Dollars (\$2,000,000), and to maintain the additional coverage required by this paragraph through one or more umbrella policies.~~

(b) Carried by Lessor. Lessor may, at Lessor's cost, shall maintain liability insurance as described in Paragraph 8.2(a), in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 Property Insurance - Building, Improvements and Rental Value.

(a) Building and Improvements. The Insuring Party shall obtain and keep in force a policy or policies in the name of Lessor, with loss payable to Lessor, any ground-lessor, and to any Lender insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full insurable replacement cost of the Premises, as the same shall exist from time to time, ~~or the amount required by any Lender, but in no event more than the commercially reasonable and available insurable value thereof.~~ Lessee Owned Alterations and Utility Installations, Trade Fixtures, and Lessee's personal property shall be insured by Lessee not by Lessor. ~~If the coverage is available and commercially appropriate, such~~ Such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake unless required by a Lender), (including ~~except the perils of flood and/or earthquake unless required by a Lender,~~) including coverage for debris removal and the enforcement of any Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of any portion of the Premises as the result of a covered loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed \$5,000 per occurrence, and Lessee shall be liable for such deductible amount in the event of an Insured Loss.

(b) Rental Value. The Insuring Party shall obtain and keep in force a policy or policies in the name of Lessor with loss payable to Lessor and any Lender, insuring the loss of the full Rent for one year with an extended period of indemnity for an additional 180 days ("Rental Value Insurance"). Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected Rent otherwise payable by Lessee, for the next 12 month period. Lessee shall be liable for any deductible amount in the event of such loss.

(c) ~~Adjacent Premises.~~ If the Premises are part of a larger building, or of a group of buildings owned by Lessor which are adjacent


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to the Premises, the Lessee shall pay for any increase in the premiums for the property insurance of such building or buildings if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

8.4 Lessee's Property; Business Interruption Insurance; Worker's Compensation Insurance.

(a) **Property Damage.** Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade Fixtures, and Lessee Owned Alterations and Utility Installations. Such insurance shall be full replacement cost coverage with a deductible of not to exceed \$1,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property, Trade Fixtures and Lessee Owned Alterations and Utility Installations. Lessee shall provide Lessor with written evidence that such insurance is in force.

(b) **Business Interruption.** Lessee shall obtain and maintain loss of income and extra expense insurance in amounts as will reimburse Lessee for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent lessees in the business of Lessee or attributable to prevention of access to the Premises as a result of such perils.

(c) **Worker's Compensation Insurance.** Lessee shall obtain and maintain Worker's Compensation Insurance in such amount as may be required by Applicable Requirements.

(d) **No Representation of Adequate Coverage.** Lessor makes no representation that the limits or forms of coverage of insurance specified herein are adequate to cover Lessee's property, business operations or obligations under this Lease.

8.5 Insurance Policies. Insurance required herein shall be by companies maintaining during the policy term a "General Policyholders Rating" of at least A-, VII, as set forth in the most current issue of "Best's Insurance Guide", or such other rating as may be required by a Lender. Lessee shall not do or permit to be done anything which invalidates the required insurance policies. Lessee shall, prior to the Start Date, deliver to Lessor certified copies of policies of such insurance or certificates with copies of the required endorsements evidencing the existence and amounts of the required insurance. No such policy shall be cancelable or subject to modification except after 30 days prior written notice to Lessor. Lessee shall, at least 10 days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less. If either Party shall fail to procure and maintain the insurance required to be carried by it, the other Party may, but shall not be required to, procure and maintain the same.

8.6 Waiver of Subrogation. Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to the perils required to be insured against herein. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance carriers waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7 Indemnity.

(a) Except for Lessor's gross negligence or willful misconduct, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be defended or indemnified.

(b) Except for Lessee's gross negligence or willful misconduct, Lessor shall indemnify, protect, defend and hold harmless the Premises and Lessee and its agents, from and against any and all claims, damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with Lessor's activities on the Premises, other than those activities related to the remediation of Hazardous Substances under the Purchase Agreement; provided, however, if Lessor sells the Premises and in connection with such sale the purchaser assumes, in writing, Lessor's obligations under the Purchase Agreement relating to the remediation of Hazardous Substances (but without implying any obligation of Lessor to cause a purchaser to assume such obligations), the indemnification provided in this paragraph shall include all activities of Lessor on the Premises, including activities related to the remediation of Hazardous Substances under the Purchase Agreement. ~~failure to remediate Hazardous Materials on the Premises on the Commencement Date as required under the Purchase Agreement.~~ If any action or proceeding is brought against Lessee by reason of the foregoing matters, Lessor shall upon notice defend the same at Lessor's expense by counsel reasonably satisfactory to Lessee and Lessee shall cooperate with Lessor in such defense. Lessee need not have first paid any such claim in order to be defended or indemnified.

8.8 Exemption of Lessor and its Agents from Liability. Except for Notwithstanding the gross negligence, willful misconduct, or breach of this Lease by Lessor or its agents, neither Lessor nor its agents shall be liable under any circumstances for: (i) injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, indoor air quality, the presence of mold


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or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the building of which the Premises are a part, or from other sources or places, (ii) any damages arising from any act or neglect of any other tenant of Lessor or from the failure of Lessor or its agents to enforce the provisions of any other lease in the Project, or (iii) injury to Lessee's business or for any loss of income or profit therefrom. Instead, it is intended that Lessee's sole recourse in the event of such damages or injury be to file a claim on the insurance policy(ies) that Lessee is required to maintain pursuant to the provisions of paragraph 8.

8.9 Failure to Provide Insurance. Lessee acknowledges that any failure on its part to obtain or maintain the insurance required herein will expose Lessor to risks and potentially cause Lessor to incur costs not contemplated by this Lease, the extent of which will be extremely difficult to ascertain. Accordingly, for any month or portion thereof that Lessee does not maintain the required insurance and/or does not provide Lessor with the required binders or certificates evidencing the existence of the required insurance, the Base Rent shall be automatically increased, without any requirement for notice to Lessee, by an amount equal to 3% 40% of the then existing Base Rent or \$100, whichever is greater until such time as the required insurance is obtained or the required binder or certification is delivered, at which time Base Rent shall revert to the rate otherwise provided in this Lease. The parties agree that such increase in Base Rent represents fair and reasonable compensation for the additional risk/costs that Lessor will incur by reason of Lessee's failure to maintain the required insurance. Such increase in Base Rent shall in no event constitute a waiver of Lessee's Default or Breach with respect to the failure to maintain such insurance, prevent the exercise of any of the other rights and remedies granted hereunder, nor relieve Lessee of its obligation to maintain the insurance specified in this Lease.

9. Damage or Destruction.

9.1 Definitions.

(a) "Premises Partial Damage" shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which can reasonably be repaired in 7 months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total. Such determination shall be binding on Lessee, except that if Lessor determines that the damage is Partial, and if (i) Lessee in good faith believes that the damage is Total and (ii) such damage materially and adversely affects at least 10% of the useable space in the improvements on the Premises, then Lessee may, within ten (10) days after receipt of Lessor's notification, provide Lessor with written notice that Lessee objects to such determination. In that event, the parties shall attempt to resolve the dispute. If the parties are not able to resolve the dispute within ten (10) days after Lessor's receipt of Lessee's objection notice, then such dispute shall be settled by binding arbitration to be held in Santa Barbara, California. Such arbitration shall be in accordance with the then-applicable Construction Industry Arbitration Rules of the American Arbitration Association. If the parties shall not have agreed on a mutually satisfactory arbitrator within ten (10) days of the request of any party for arbitration hereunder, the President of the American Arbitration Association shall appoint the arbitrator. The decision of the arbitrator shall be final, conclusive and binding on the parties. The arbitrator shall award to the prevailing party that party's reasonable attorneys' fees and costs. The actual cost of the arbitration itself shall be borne by the losing party.

(b) "Premises Total Destruction" shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which cannot reasonably be repaired in 7 months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total. Subject to the exceptions in Section 9.1(a) above, such determination shall be binding on Lessee.

~~(a) "Premises Partial Damage" shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which can reasonably be repaired in 6 months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total. Notwithstanding the foregoing, Premises Partial Damage shall not include damage to windows, doors, and/or other similar items which Lessee has the responsibility to repair or replace pursuant to the provisions of Paragraph 7.1.~~

~~(b) "Premises Total Destruction" shall mean damage or destruction to the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which cannot reasonably be repaired in 6 months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total.~~

(c) "Insured Loss" shall mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a), irrespective of any deductible amounts or coverage limits involved.

(d) "Replacement Cost" shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of Applicable Requirements, and without deduction for depreciation.

(e) "Hazardous Substance Condition" shall mean the occurrence or discovery of a condition involving the presence of, or a


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contamination by, a Hazardous Substance, in, on, or under the Premises which requires remediation to a level necessary to cause the Premises to be in compliance with Applicable Requirements, pursuant to a final non-appealable order of a government agency.

9.2 Partial Damage - Insured Loss. If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; provided, however, that Lessee shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of which is \$10,000 or less, and, in such event, Lessor shall make any applicable insurance proceeds available to Lessee on a reasonable basis for that purpose. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage in proceeds (except as to the deductible which is Lessee's responsibility) as and when required to complete said repairs. In the event, however, such shortage was due to the fact that, by reason of the unique nature of the Improvements, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within 10 days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said 10 day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If such funds or assurance are not received, Lessor may nevertheless elect by written notice to Lessee within 10 days thereafter to: (i) make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect, or (ii) have this Lease terminate 30 days thereafter. Lessee shall not be entitled to reimbursement of any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.


9.3 Partial Damage - Uninsured Loss. If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), Lessor may either: (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) terminate this Lease by giving written notice to Lessee within 30 days after receipt by Lessor of knowledge of the occurrence of such damage. Such termination shall be effective 1560 days following the date of such notice. In the event Lessor elects to terminate this Lease, Lessee shall have the right within 10 days after receipt of the termination notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage without reimbursement from Lessor. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within 30 days after making such commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not make the required commitment, this Lease shall terminate as of the date specified in the termination notice.

9.4 Total Destruction. Notwithstanding any other provision hereof, if a Premises Total Destruction occurs, this Lease shall terminate 60 days following such Destruction. If the damage or destruction was caused by the gross negligence or willful misconduct of Lessee, Lessor shall have the right to recover Lessor's damages from Lessee, except as provided in Paragraph 8.6.

9.5 Damage Near End of Term. If at any time during the last 6 months of this Lease there is damage for which the cost to repair exceeds one month's Base Rent, whether or not an Insured Loss, either Lessee or Lessor may terminate this Lease effective 60 days following the date of occurrence of such damage by giving a written termination notice to the other party Lessee within 30 days after the date of occurrence of such damage. Notwithstanding the foregoing, if Lessor elects to terminate this Lease and Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, (a) exercising such option and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is 10 days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's commercially reasonable expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate on the date specified in the termination notice and Lessee's option shall be extinguished.

9.6 Abatement of Rent; Lessee's Remedies.

(a) **Abatement.** In the event of Premises Partial Damage or Premises Total Destruction, or a Hazardous Substance Condition for which Lessee is not responsible under this Lease, and which results in Lessee's inability to use either the entire Premises or an entire building within the Premises because the Santa Barbara Fire Department, the County Department of Environmental Health, or other governmental agency prohibits such use as a result of such Hazardous Substance Condition, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not to exceed the proceeds received from the Rental Value Insurance. All other obligations of Lessee hereunder shall be performed by Lessee, and Lessor shall have no liability for any such damage, destruction,


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remediation, repair or restoration except as provided herein. Notwithstanding anything in this Lease to the contrary, Lessee shall not be entitled to terminate the Lease or to any abatement of rent (except for the rent abatement specifically provided for in this paragraph) arising out of or relating to Hazardous Substances Materials on the Premises as of the Commencement Date which Lessor is required to remediate pursuant to the terms of the Purchase Agreement.

(b) Remedies. If Lessor is obligated to repair or restore the Premises and does not commence, in a substantial and meaningful way, such repair or restoration within 90 days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice, of Lessee's election to terminate this Lease on a date not less than 60 days following the giving of such notice. If Lessee gives such notice and such repair or restoration is not commenced within 30 days thereafter, this Lease shall terminate as of the date specified in said notice. If the repair or restoration is commenced within such 30 days, this Lease shall continue in full force and effect. "Commence" shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

9.7 Termination; Advance Payments. Upon termination of this Lease pursuant to Paragraph 6.2(g) or Paragraph 9, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor.

10. Real Property Taxes.

10.1 Definition. As used herein, the term "Real Property Taxes" shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance, personal income or estate taxes); improvement bond; and/or license fee imposed upon or levied against any legal or equitable interest of Lessor in the Premises or the Project, Lessor's right to other income therefrom, and/or Lessor's business of leasing, by any authority having the direct or indirect power to tax and where the funds are generated with reference to the Building address and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Premises are located. Real Property Taxes shall also include any tax, fee, levy, assessment or charge, or any increase therein: (i) imposed by reason of events occurring during the term of this Lease, including but not limited to, a change in the ownership of the Premises, and (ii) levied or assessed on machinery or equipment provided by Lessor to Lessee pursuant to this Lease.

10.2 Payment of Taxes. In addition to Base Rent, Lessee shall pay to Lessor an amount equal to the Real Property Tax installment due at least 20 days prior to the applicable delinquency date and Lessor shall pay such amount to the applicable taxing authority prior to the applicable due delinquency date (and Lessor shall be liable for all penalties if Lessor fails to pay such amount prior to delinquency). If any such installment shall cover any period of time prior to or after the expiration or termination of this Lease, Lessee's share of such installment shall be prorated. In the event Lessee incurs a late charge on any Rent payment, Lessor may estimate the current Real Property Taxes, and require that such taxes be paid in advance to Lessor by Lessee monthly in advance with the payment of the Base Rent. Such monthly payments shall be an amount equal to the amount of the estimated installment of taxes divided by the number of months remaining before the month in which said installment becomes delinquent. When the actual amount of the applicable tax bill is known, the amount of such equal monthly advance payments shall be adjusted as required to provide the funds needed to pay the applicable taxes. If the amount collected by Lessor is insufficient to pay such Real Property Taxes when due, Lessee shall pay Lessor, upon demand, such additional sum as is necessary. Advance payments may be intermingled with other moneys of Lessor and shall not bear interest. In the event of a Breach by Lessee in the performance of its obligations under this Lease, then any such advance payments may be treated by Lessor as an additional Security Deposit.

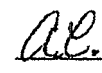
~~10.3 Joint Assessment. If the Premises are not separately assessed, Lessee's liability shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be conclusively determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available.~~

10.4 Personal Property Taxes. Lessee shall pay, prior to delinquency, all taxes assessed against and levied upon Lessee Owned Alterations, Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee. When possible, Lessee shall cause its Lessee Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within 10 days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. Utilities and Services. Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered or billed to Lessee, Lessee shall pay a reasonable proportion, to be determined by Lessor, of all charges jointly metered or billed. There shall be no abatement of rent and Lessor shall not be liable in any respect whatsoever for the inadequacy, stoppage, interruption or discontinuance of any utility or service due to riot, strike, labor dispute, breakdown, accident, repair or other cause beyond Lessor's reasonable control or in cooperation with governmental request or directions.

12. Assignment and Subletting.


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12.1 Lessor's Consent Required.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, "assign or assignment") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent. Lessor's failure to provide written notice of its consent or disapproval of any requested assignment or sublease within 30 days after Lessor's receipt of Lessee's written request and all information described in Section 12(e) below shall constitute Lessor's consent to the requested assignment or sublease. Notwithstanding the provisions of this Section, Lessee shall not be required to obtain Lessor's consent to subleases of less than 10,000 square feet ("Permitted Subleases").

(b) Unless Lessee is a corporation and its stock is publicly traded on a national stock exchange, a change in the control of Lessee shall constitute an assignment requiring consent. The transfer, on a cumulative basis, of 25% or more of the voting control of Lessee shall constitute a change in control for this purpose.

~~(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee by an amount greater than 25% of such Net Worth as it was represented at the time of the execution of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, whichever was or is greater, shall be considered an assignment of this Lease to which Lessor may withhold its consent. "Net Worth of Lessee" shall mean the net worth of Lessee (excluding any guarantors) established under generally accepted accounting principles.~~

(d) An assignment or subletting without (other than a Permitted Sublease) without consent shall, at Lessor's option, be a Default curable after notice per Paragraph 13.1(c), or a noncurable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unapproved assignment or subletting as a noncurable Breach, Lessor may either: (i) terminate this Lease, or (ii) upon 30 days written notice, increase the monthly Base Rent to 110% of the Base Rent then in effect. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to 110% of the price previously in effect, and (ii) all fixed and non-fixed rental adjustments scheduled during the remainder of the Lease term shall be increased to 110% of the scheduled adjusted rent.

(e) Lessee's remedy for any breach of Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

f) Lessor may reasonably withhold consent to a proposed assignment or subletting if Lessee is in Default at the time consent is requested.

(g) Notwithstanding the foregoing, allowing a de minimis portion of the Premises, i.e. 20 square feet or less, to be used by a third party vendor in connection with the installation of a vending machine or payphone shall not constitute a subletting.

(h) Lessor acknowledges that Lessor currently has leased a portion of the Premises to GRT Inc., a Delaware corporation ("GRT"), pursuant to that certain Standard Industrial/Commercial Multi-Tenant Lease - Net dated as of July 15, 2004, as amended by a First Amendment dated as of April 18, 2007, and a Second Amendment dated as of July 17, 2010 (collectively, the "GRT Lease"). Lessor shall assign the GRT Lease to Lessee and Lessee shall accept the assignment thereof effective as of the Commencement Date, and obtain GRT's written consent to such assignment and GRT's written agreement that the GRT lease shall, from and after the Commencement Date hereof, be a sublease that is subject and subordinate to this Lease.

As of the Commencement Date, Lessor and Lessee agree that the leases described below are terminated and of no further force and effect:

(1) Standard Industrial/Commercial Single-Tenant Lease - Net dated December 1, 2000 between Lessor Channel Technologies, Inc., as lessor, and Lessee CTG (as successor to International Transducer Corp. LLC), as lessee.

(2) Standard Industrial/Commercial Single-Tenant Lease - Net dated December 1, 2000 between Lessor Channel Technologies, Inc., as lessor, and Lessee CTG (as successor to Sonatech, Inc.), as lessee.

(3) Oral lease between Lessor Channel and Lessee CTG regarding 839 Ward Drive.

12.2 Terms and Conditions Applicable to Assignment and Subletting.

(a) Regardless of Lessor's consent, no assignment or subletting shall: (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, or (iii) alter the primary liability of Lessee for the payment of Rent or for the performance of any other obligations to be performed by Lessee.

(b) Lessor may accept Rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of Rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for Lessee's Default or Breach.

(c) Lessor's consent to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting.



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(d) In the event of any Default or Breach by Lessee, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of Lessee's obligations under this Lease, including any assignee or sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any, together with a fee of \$500 as consideration for Lessor's considering and processing said request. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested. (See also Paragraph 36)

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment, entering into such sublease, or entering into possession of the Premises or any portion thereof, be deemed to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented to in writing.

(g) Lessor's consent to any assignment or subletting shall not transfer to the assignee or sublessee any Option granted to the original Lessee by this Lease unless such transfer is specifically consented to by Lessor in writing. (See Paragraph 39.2)

12.3 Additional Terms and Conditions Applicable to Subletting. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until a monetary Breach shall occur in the performance of Lessee's obligations, Lessee may collect said Rent. In the event that the amount collected by Lessor exceeds Lessee's then outstanding obligations any such excess shall be refunded to Lessee. Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the collection of Rent, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a monetary Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor all Rent due and to become due under the sublease. Sublessee shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether such Breach exists, notwithstanding any claim from Lessee to the contrary.

(b) ~~In the event of a Breach by Lessee, if this Lease terminates, Lessor may, at its option, require sublessee to atton to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any prior Defaults or Breaches of such sublessor.~~

(c) Any matter requiring the consent of the sublessor under a sublease shall also require the consent of Lessor.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. Default; Breach; Remedies.

13.1 Default; Breach. A "Default" is defined as a failure by the Lessee to comply with or perform any of the terms, covenants, conditions or Rules and Regulations under this Lease. A "Breach" is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

(a) The abandonment of the Premises; or the vacating of the Premises without providing a commercially reasonable level of security, or where the coverage of the property insurance described in Paragraph 8.3 is jeopardized as a result thereof, or without providing reasonable assurances to minimize potential vandalism.

(b) The failure of Lessee to make any payment of Rent or any Security Deposit required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of 3 business days following written notice to Lessee. THE ACCEPTANCE BY LESSOR OF A PARTIAL PAYMENT OF RENT OR SECURITY DEPOSIT SHALL NOT CONSTITUTE A WAIVER OF ANY OF LESSOR'S RIGHTS, INCLUDING LESSOR'S RIGHT TO RECOVER POSSESSION OF THE PREMISES.

(c) The failure of Lessee to allow Lessor and/or its agents access to the Premises subject to the limits stated in Section 32 below, or the commission of waste, act or acts constituting public or private nuisance, and/or an illegal activity on the Premises by Lessee, where such actions continue for a period of 3 business days following written notice to Lessee.


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(d) Either (i) the failure by Lessee to provide an Estoppel Certificate or financial statements in accordance with Section 16 below, or a requested subordination in accordance with Section 30 below, within ten (10) days following Lessee's receipt of a written request from Lessor, or (ii) the failure by Lessee to provide the following materials within a reasonable period of time (not to exceed thirty (30) days) following Lessee's receipt of a written request from Lessor which shall not be made more than once every six (6) months during the Term hereof (except in connection with any potential financing, refinancing, or sale of the Premises): (A) reasonable written evidence of compliance with Applicable Requirements as required by Section 6.5 above; (B) the service contracts if required pursuant to Section 7.1(b) above; (C) any document requested under Section 42 below, or (D) any other documentation or information reasonably required under the terms of this Lease. ~~The failure by Lessee to provide (i) reasonable written evidence of compliance with Applicable Requirements, (ii) the service contracts, (iii) the rescission of an unauthorized assignment or subletting, (iv) an Estoppel Certificate or financial statements, (v) a requested subordination, (vi) evidence concerning any guaranty and/or Guarantor, (vii) any document requested under Paragraph 42, (viii) material safety data sheets (MSDS), or (ix) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of 10 days following written notice to Lessee.~~

(e) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof, other than those described in subparagraphs 13.1(a), (b), (c) or (d), above, where such Default continues for a period of 30 days after written notice; provided, however, that if the nature of Lessee's Default is such that more than 30 days are reasonably required for its cure, then it shall not be deemed to be a Breach if Lessee commences such cure within said 30 day period and thereafter diligently prosecutes such cure to completion.


(f) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a "debtor" as defined in 11 U.S.C. §101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within 60 days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within 30 days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within 30 days; provided, however, in the event that any provision of this subparagraph is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions.

(g) The discovery that any financial statement of Lessee or of any Guarantor given to Lessor was materially false.

~~(h) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor, (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a Guarantor's refusal to honor the guaranty, or (v) a Guarantor's breach of its guaranty obligation on an anticipatory basis, and Lessee's failure, within 60 days following written notice of any such event, to provide written alternative assurance or security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of execution of this Lease.~~

13.2 Remedies. If Lessee fails to perform any of its material affirmative duties or obligations, within 10 days after written notice (or in case of an emergency, without notice), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. Lessee shall pay to Lessor an amount equal to 100% 145% of the costs and expenses incurred by Lessor in such performance upon receipt of an invoice therefor. In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid Rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the District within which the Premises are located at the time of award plus one percent. Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessor's right to recover damages under Paragraph 12. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate


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suit. If a notice and grace period required under Paragraph 13.1 was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful detainer statute shall also constitute the notice required by Paragraph 13.1. In such case, the applicable grace period required by Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located. The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 Inducement Recapture. Any agreement for free or abated rent or other charges, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "Inducement Provisions," shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease. Upon Breach of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, Inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this paragraph shall not be deemed a waiver by Lessor of the provisions of this paragraph unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 Late Charges. Lessee hereby acknowledges that late payment by Lessee of Rent will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by any Lender. Accordingly, if any Rent shall not be received by Lessor within 5 days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall immediately pay to Lessor a one-time late charge equal to 3% 40% of each such overdue amount or \$100; whichever is greater. The Parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of such late payment. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent the exercise of any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for 3 consecutive installments of Base Rent, then notwithstanding any provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

13.5 Interest. Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor, when due as to scheduled payments (such as Base Rent) or within 30 days following the date on which it was due for non-scheduled payment, shall bear interest from the date when due, as to scheduled payments, or the 31st day after it was due as to non-scheduled payments. The interest ("Interest") charged shall be computed at the rate of 10% per annum but shall not exceed the maximum rate allowed by law. Interest is payable in addition to the potential late charge provided for in Paragraph 13.4.

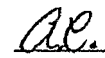
13.6 Breach by Lessor.

(a) **Notice of Breach.** Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph, a reasonable time shall in no event be less than 30 days after receipt by Lessor, and any Lender whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than 30 days are reasonably required for its performance, then Lessor shall not be in breach if performance is commenced within such 30 day period and thereafter diligently pursued to completion.

(b) **Performance by Lessee on Behalf of Lessor.** In the event that neither Lessor nor Lender cures said breach within 30 days after receipt of said notice, or if having commenced said cure they do not diligently pursue it to completion, then Lessee may elect to cure said breach at Lessee's expense and offset from Rent the actual and reasonable cost to perform such cure, provided, however, that such offset shall not exceed an amount equal to the greater of one month's Base Rent or the Security Deposit, reserving Lessee's right to seek reimbursement from Lessor for any such expense in excess of such offset. Lessee shall document the cost of said cure and supply said documentation to Lessor. Notwithstanding the foregoing, Lessee reserves all rights and remedies at law or in equity, and the offset of Rent shall not be Lessee's exclusive remedy.

14. Condemnation. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively "Condemnation"), this Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10% of the Building, or more than 10% 25% of that portion of the Premises not occupied by any building,


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is taken by Condemnation, Lessee may, at Lessee's option, to be exercised in writing within 10 days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within 10 days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in proportion to the reduction in utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation paid by the condemnor for Lessee's relocation expenses, loss of business goodwill and/or Trade Fixtures, without regard to whether or not this Lease is terminated pursuant to the provisions of this Paragraph. All Alterations and Utility Installations made to the Premises by Lessee, for purposes of Condemnation only, shall be considered the property of the Lessee and Lessee shall be entitled to any and all compensation which is payable therefor. In the event that this Lease is not terminated by reason of the Condemnation, Lessor shall repair any damage to the Premises caused by such Condemnation.

15. Brokerage Fees.

~~15.1 Additional Commission. If a separate brokerage fee agreement is attached then in addition to the payments owed pursuant to Paragraph 4.0 above, and unless Lessor and the Brokers otherwise agree in writing, Lessor agrees that (a) if Lessee exercises any Option, (b) if Lessee or anyone affiliated with Lessee acquires any rights to the Premises or other premises owned by Lessor and located within the same Project, if any, within which the Premises is located, (c) if Lessee remains in possession of the Premises, with the consent of Lessor, after the expiration of this Lease, or (d) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then, Lessor shall pay Brokers a fee in accordance with the schedule attached to such brokerage fee agreement.~~

~~15.2 Assumption of Obligations. Any buyer or transferee of Lessor's interest in this Lease shall be deemed to have assumed Lessor's obligation hereunder. Brokers shall be third party beneficiaries of the provisions of Paragraphs 4.0, 15, 22 and 31. If Lessor fails to pay to Brokers any amounts due as and for brokerage fees pertaining to this Lease when due, then such amounts shall accrue interest. In addition, if Lessor fails to pay any amounts to Lessee's Broker when due, Lessee's Broker may send written notice to Lessor and Lessee of such failure and if Lessor fails to pay such amounts within 10 days after said notice, Lessee shall pay said monies to its Broker and effect such amounts against Rent. In addition, Lessee's Broker shall be deemed to be a third party beneficiary of any commission agreement entered into by and/or between Lessor and Lessor's Broker for the limited purpose of collecting any brokerage fee owed.~~

~~15.3 Representations and Indemnities of Broker Relationships. Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers, if any) in connection with this Lease, and that no one other than said named Brokers is entitled to any commission or finder's fee in connection herewith. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, attorneys' fees reasonably incurred with respect thereto.~~

16. Estoppel Certificates.

(a) Each Party (as "Responding Party") shall within 10 days after written notice from the other Party (the "Requesting Party") execute, acknowledge and deliver to the Requesting Party a statement in writing in form similar to the then most current "Estoppel Certificate" form published by the AIR Commercial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

(b) If the Responding Party shall fail to execute or deliver the Estoppel Certificate within such 10 day period, the Requesting Party may execute an Estoppel Certificate stating that: (i) the Lease is in full force and effect without modification except as may be represented by the Requesting Party, (ii) there are no uncured defaults in the Requesting Party's performance, and (iii) if Lessor is the Requesting Party, not more than one month's rent has been paid in advance. Prospective purchasers and encumbrancers may rely upon the Requesting Party's Estoppel Certificate, and the Responding Party shall be estopped from denying the truth of the facts contained in said Certificate.

(c) If Lessor desires to finance, refinance, or sell the Premises, or any part thereof, Lessee and all Guarantors shall within 10 days after written notice from Lessor deliver to any potential lender or purchaser designated by Lessor such financial statements as may be reasonably required by such lender or purchaser, including but not limited to Lessee's financial statements for the past 3 years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. Definition of Lessor. The term "Lessor" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease, of the Lessee's interest in the prior lease. In the event of a transfer of Lessor's title or interest in the Premises or this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit), with written notice to Lessee, any unused Security Deposit held by Lessor. Upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the


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obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined.

18. **Severability.** The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. **Days.** Unless otherwise specifically indicated to the contrary, the word "days" as used in this Lease shall mean and refer to calendar days.

20. **Limitation on Liability.** The obligations of Lessor under this Lease shall not constitute personal obligations of Lessor or its partners, members, directors, officers or shareholders, and Lessee shall look to the Premises, and to no other assets of Lessor, for the satisfaction of any liability of Lessor with respect to this Lease, and shall not seek recourse against Lessor's partners, members, directors, officers or shareholders, or any of their personal assets for such satisfaction.

21. **Time of Essence.** Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

22. **No Prior or Other Agreements; Broker Disclaimer.** This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. ~~Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the use, nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party.~~

23. **Notices.**

23.1 **Notice Requirements.** All notices required or permitted by this Lease or applicable law shall be in writing and may be delivered in person (by hand or by courier) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notices. Either Party may by written notice to the other specify a different address for notice, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice. A copy of all notices to Lessor shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate in writing.

23.2 **Date of Notice.** Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail the notice shall be deemed given 72 hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantees next day delivery shall be deemed given 24 hours after delivery of the same to the Postal Service or courier. Notices transmitted by facsimile transmission or similar means shall be deemed delivered upon telephone confirmation of receipt (confirmation report from fax machine is sufficient), provided a copy is also delivered via delivery or mail. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

24. **Waivers.**

(a) No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent.

(b) The acceptance of Rent by Lessor shall not be a waiver of any Default or Breach by Lessee. Any payment by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

(c) THE PARTIES AGREE THAT THE TERMS OF THIS LEASE SHALL GOVERN WITH REGARD TO ALL MATTERS RELATED THERETO AND HEREBY WAIVE THE PROVISIONS OF ANY PRESENT OR FUTURE STATUTE TO THE EXTENT THAT SUCH STATUTE IS INCONSISTENT WITH THIS LEASE.

25. **Disclosures Regarding The Nature of a Real Estate Agency Relationship.**

~~(a) When entering into a discussion with a real estate agent regarding a real estate transaction, a Lessor or Lessee should from the outset understand what type of agency relationship or representation it has with the agent or agents in the transaction. Lessor and Lessee acknowledge being advised by the Brokers in this transaction, as follows:~~

~~(i) Lessor's Agent. A Lessor's agent under a listing agreement with the Lessor acts as the agent for the Lessor~~


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only. ~~A Lessor's agent or subagent has the following affirmative obligations: To the Lessor. A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Lessor. To the Lessee and the Lessor. a. Diligent exercise of reasonable skills and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.~~

~~(ii) Lessor's Agent. An agent can agree to act as agent for the Lessee only. In these situations, the agent is not the Lessor's agent, even if by agreement the agent may receive compensation for services rendered, either in full or in part from the Lessor. An agent acting only for a Lessee has the following affirmative obligations. To the Lessee. A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Lessee. To the Lessee and the Lessor. a. Diligent exercise of reasonable skills and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.~~

~~(iii) Agent Representing Both Lessor and Lessee. A real estate agent, either acting directly or through one or more associate licenses, can legally be the agent of both the Lessor and the Lessee in a transaction, but only with the knowledge and consent of both the Lessor and the Lessee. In a dual agency situation, the agent has the following affirmative obligations to both the Lessor and the Lessee: a. A fiduciary duty of utmost care, integrity, honesty and loyalty in the dealings with either Lessor or the Lessee. b. Other duties to the Lessor and the Lessee as stated above in subparagraphs (i) or (ii). In representing both Lessor and Lessee, the agent may not without the express permission of the respective Party, disclose to the other Party that the Lessor will accept rent in an amount less than that indicated in the listing or that the Lessee is willing to pay a higher rent than that offered. The above duties of the agent in a real estate transaction do not relieve a Lessor or Lessee from the responsibility to protect their own interests. Lessor and Lessee should carefully read all agreements to assure that they adequately express their understanding of the transaction. A real estate agent is a person qualified to advise about real estate. If legal or tax advice is desired, consult a competent professional.~~

~~(b) Brokers have no responsibility with respect to any default or breach hereof by either Party. The Parties agree that no lawsuit or other legal proceeding involving any breach of duty, error or omission relating to this Lease may be brought against Broker more than one year after the Start Date and that the liability (including court costs and attorneys' fees), of any Broker with respect to any such lawsuit and/or legal proceeding shall not exceed the fee received by such Broker pursuant to this Lease; provided, however, that the foregoing limitation on each Broker's liability shall not be applicable to any gross negligence or willful misconduct of such Broker.~~

~~(c) Lessor and Lessee agree to identify to Brokers as "Confidential" any communication or information given Brokers that is considered by each Party to be confidential.~~

26. **No Right To Holdover.** Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lessee holds over, then the Base Rent shall be increased to 150% of the Base Rent applicable immediately preceding the expiration or termination. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee. Lessee shall not be responsible for lost profits or punitive or consequential damages under this Lease. In the event Lessee becomes a holdover tenant following any termination of this Lease prior to the expiration of the Original Term, Lessee lessee shall not be responsible for lost profits or punitive damages suffered by Lessor. Lessee lessee shall be responsible for lost profits in the event it holds over after the expiration of the Original Term. In all cases, Lessee shall be liable for damages pursuant to Section 1951 et seq. of the California Civil Code.

27. **Cumulative Remedies.** No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. **Covenants and Conditions; Construction of Agreement.** All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions. In construing this Lease, all headings and titles are for the convenience of the Parties only and shall not be considered a part of this Lease. Whenever required by the context, the singular shall include the plural and vice versa. This Lease shall not be construed as if prepared by one of the Parties, but rather according to its fair meaning as a whole, as if both Parties had prepared it.

29. **Binding Effect; Choice of Law.** This Lease shall be binding upon the Parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. **Subordination; Attornment; Non-Disturbance.**

30.1 **Subordination.** This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "Security Device"), now or hereafter placed upon the Premises, to any and all advances made on the security thereof, and to all renewals, modifications, and extensions thereof but only if Lender or the holder of such Security Device agrees in writing for the benefit of Lessee to the requirements of Paragraph Section-30.3 below. Lessee agrees that the holders of any such Security Devices


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(in this Lease together referred to as "Lender") shall have no liability or obligation to perform any of the obligations of Lessor under this Lease. Any Lender may elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device by giving written notice thereof to Lessee, whereupon this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 Attornment. In the event that Lessor transfers title to the Premises, or the Premises are acquired by another upon the foreclosure or termination of a Security Device to which this Lease is subordinated (i) Lessee shall, subject to the non-disturbance provisions of Paragraph 30.3, attorn to such new owner, and upon request, enter into a new lease, containing all of the terms and provisions of this Lease, with such new owner for the remainder of the term hereof, or, at the election of the new owner, this Lease will automatically become a new lease between Lessee and such new owner, and (ii) Lessor shall thereafter be relieved of any further obligations hereunder and such new owner shall assume all of Lessor's obligations, except that such new owner shall not: (a) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership; (b) be subject to any offsets or defenses which Lessee might have against any prior lessor, or (c) be bound by prepayment of more than one month's rent, or (d) be liable for the return of any security deposit paid to any prior lessor which was not paid or credited to such new owner.

30.3 Non-Disturbance. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement (a "Non-Disturbance Agreement") from the Lender which Non-Disturbance Agreement provides that Lessee's possession of the Premises, and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises. Further, within 60 days after the execution of this Lease, Lessor shall, if requested by Lessee, use its commercially reasonable efforts to obtain a Non-Disturbance Agreement from the holder of any pre-existing Security Device which is secured by the Premises. In the event that Lessor is unable to provide the Non-Disturbance Agreement within said 60 days, then Lessee may, at Lessee's option, directly contact Lender and attempt to negotiate for the execution and delivery of a Non-Disturbance Agreement.

30.4 Self-Executing. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any subordination, attornment and/or Non-Disturbance Agreement provided for herein.

31. Attorneys' Fees. If any Party or Broker brings an action or proceeding involving the Premises whether founded in tort, contract or equity, or to declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "Prevailing Party" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. In addition, Lessor shall be entitled to attorneys' fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach (\$200 is a reasonable minimum per occurrence for such services and consultation).

32. Lessor's Access; Showing Premises; Repairs. Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times after at least forty-eight (48) hours prior written notice (or, in connection with Lessor's access for purposes of conducting its remediation of Hazardous Substances pursuant to the Purchase Agreement, such shorter notice as may be reasonable under the circumstances) reasonable prior notice for the purpose of showing the same to prospective purchasers, lenders, or tenants, and making such alterations, repairs, improvements or additions to the Premises as Lessor may deem necessary or desirable and the erecting, using and maintaining of utilities, services, pipes and conduits through the Premises and/or other premises as long as there is no material adverse effect to Lessee's use of the Premises. All such activities shall be without abatement of rent or liability to Lessee. Lessor acknowledges that Lessee is subject to certain federal and state confidentiality and security requirements which prohibit Lessee from permitting access to certain portions of the Premises to persons who do not possess adequate security clearances. Accordingly, notwithstanding anything to the contrary in this Lease, whenever Lessor is provided the right to have access to the Premises pursuant to the terms of this Lease, such right of access shall not include access to those indoor portions of the Premises designated by Lessee as being restricted to persons with adequate security clearances.

33. Auctions. Lessee shall not conduct, nor permit to be conducted, any auction upon the Premises without Lessor's prior written consent. Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to permit an auction.

34. Signs. Lessor may place on the Premises ordinary "For Sale" signs at any time and ordinary "For Lease" signs during the last 6 months of the term hereof. Except for ordinary "for sublease" signs, Lessee shall not place any sign upon the Premises without Lessor's prior written consent. All signs must comply with all Applicable Requirements.

35. Termination; Merger. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the

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mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, that Lessor may elect to continue any one or all existing subtenancies. Lessor's failure within 10 days following any such event to elect to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. **Consents.** Except as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including but not limited to architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent, including but not limited to consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee upon receipt of an invoice and supporting documentation therefor (except Lessor shall not be entitled to more than \$2,000 for each request for consent to a sublease or assignment). Lessor's consent to any act, assignment or subletting shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given. In the event that either Party disagrees with any determination made by the other hereunder and reasonably requests the reasons for such determination, the determining party shall furnish its reasons in writing and in reasonable detail within 10 business days following such request.

37. **Guarantor.**

~~37.1 Execution. The Guarantors, if any, shall each execute a guaranty in the form most recently published by the AIR Commercial Real Estate Association, and each such Guarantor shall have the same obligations as Lessee under this Lease.~~

~~37.2 Default. It shall constitute a Default of the Lessee if any Guarantor fails or refuses, upon request to provide: (a) evidence of the execution of the guaranty, including the authority of the party signing on Guarantor's behalf to obligate Guarantor, and in the case of a corporate Guarantor, a certified copy of a resolution of its board of directors authorizing the making of such guaranty, (b) current financial statements, (c) an Estoppel Certificate, or (d) written confirmation that the guaranty is still in effect.~~

38. **Quiet Possession.** Subject to payment by Lessee of the Rent and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession and quiet enjoyment of the Premises during the term hereof.

39. **Options.** If Lessee is granted an Option, as defined below, then the following provisions shall apply:

39.1 **Definition.** "Option" shall mean: (a) the right to extend or reduce the term of or renew this Lease or to extend or reduce the term of or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal or first offer to lease either the Premises or other property of Lessor; (c) the right to purchase, the right of first offer to purchase or the right of first refusal to purchase the Premises or other property of Lessor.

39.2 **Options Personal To Original Lessee.** Any Option granted to Lessee in this Lease is personal to the original Lessee, and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and, if requested by Lessor, with Lessee certifying that Lessee has no intention of thereafter assigning or subletting.

39.3 **Multiple Options.** In the event that Lessee has any multiple Options to extend or renew this Lease, a later Option cannot be exercised unless the prior Options have been validly exercised.

39.4 **Effect of Default on Options.**

(a) Lessee shall have no right to exercise an Option: (i) during the period commencing with the giving of any notice of Default and continuing until said Default is cured, (ii) during the period of time any Rent is unpaid (without regard to whether notice thereof is given Lessee), (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessee has been given 3 or more notices of separate Default, whether or not the Defaults are cured, during the 12 month period immediately preceding the exercise of the Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) An Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and prior to the commencement of the extended term or completion of the purchase, (i) Lessee fails to pay Rent for a period of 30 days after such Rent becomes due (without any necessity of Lessor to give notice thereof), or (ii) if Lessee commits a Breach of this Lease.

~~40. Multiple Buildings. If the Premises are a part of a group of buildings controlled by Lessor, Lessee agrees that it will abide by and conform to all reasonable rules and regulations which Lessor may make from time to time for the management, safety, and care of said properties, including the care and cleanliness of the grounds and including the parking, loading and unloading of vehicles, and to cause its employees, suppliers, shippers, customers, contractors and invitees to so abide and conform. Lessee also agrees to pay its fair share of common expenses incurred in connection with such rules and regulations.~~



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41. **Security Measures.** Lessee hereby acknowledges that the Rent payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

42. **Reservations.** Lessor reserves to itself the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights, dedications, maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. **Performance Under Protest.** If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay. A Party who does not initiate suit for the recovery of sums paid "under protest" with 6 months shall be deemed to have waived its right to protest such payment.

44. **Authority; Multiple Parties; Execution.**

(a) If either Party hereto is a corporation, trust, limited liability company, partnership, or similar entity, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. Each Party shall, within 30 days after request, deliver to the other Party a corporate or entity resolution evidencing satisfactory evidence of such authority.

~~(b) If this Lease is executed by more than one person or entity as "Lessee", each such person or entity shall be jointly and severally liable hereunder. It is agreed that any one of the named Lessees shall be empowered to execute any amendment to this Lease, or other document ancillary thereto and bind all of the named Lessees, and Lessor may rely on the same as if all of the named Lessees had executed such document.~~

(c) This Lease may be executed by the Parties in counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

45. **Conflict.** Any conflict between the printed provisions of this Lease and typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

46. **Offer.** Preparation of this Lease by either Party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

47. **Amendments.** This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by a Lender in connection with the obtaining of normal financing or refinancing of the Premises.

48. **Waiver of Jury Trial.** THE PARTIES HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING INVOLVING THE PROPERTY OR ARISING OUT OF THIS AGREEMENT.

49. **Arbitration of Disputes.** An Addendum requiring the Arbitration of all disputes between the Parties and/or Brokers arising out of this Lease

is is not attached to this Lease.

50. **Americans with Disabilities Act.** Since compliance with the Americans with Disabilities Act (ADA) is dependent upon Lessee's specific use of the Premises, Lessor makes no warranty or representation as to whether or not the Premises comply with ADA or any similar legislation. In the event that Lessee's use of the Premises requires modifications or additions to the Premises in order to be in ADA compliance, Lessee agrees to make any such necessary modifications and/or additions at Lessee's expense.


51. **Net Worth of Lessee.** It shall be a breach of this Lease if the Net Worth of Lessee shall fall to be at least \$4,000,000 at any time. "Net Worth of Lessee" shall mean the net worth of Lessee (excluding any guarantors) established under generally accepted accounting principles. Lessee shall promptly deliver to Lessor such evidence of the Net Worth of Lessee as may be reasonably requested by Lessor from time to time (but in no event more frequently than once per calendar year quarter).

52. **Completion of Annex III Items.** Within a reasonable period of time after the Commencement Date, Lessee shall, at Lessee's expense, complete all of the repairs, renovations, and other items described on Annex III to the Purchase Agreement.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AIR COMMERCIAL REAL ESTATE ASSOCIATION OR BY ANY


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BROKER AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES ARE URGED TO:

- 1. SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.**
- 2. RETAIN APPROPRIATE CONSULTANTS TO REVIEW AND INVESTIGATE THE CONDITION OF THE PREMISES. SAID INVESTIGATION SHOULD INCLUDE BUT NOT BE LIMITED TO: THE POSSIBLE PRESENCE OF HAZARDOUS SUBSTANCES, THE ZONING OF THE PREMISES, THE STRUCTURAL INTEGRITY, THE CONDITION OF THE ROOF AND OPERATING SYSTEMS, AND THE SUITABILITY OF THE PREMISES FOR LESSEE'S INTENDED USE.**

WARNING: IF THE PREMISES IS LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THE LEASE MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PREMISES IS LOCATED.

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The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: _____ Executed at: _____
On: _____ On: _____

By LESSOR: Channel Technologies, Inc. By LESSEE: Channel Technologies Group, LLC

By: Asiik Claybrook By: [Signature]
Name Printed: _____ Name Printed: _____
Title: _____ Title: _____
By: _____ By: _____
Name Printed: _____ Name Printed: _____
Title: _____ Title: _____
Address: _____ Address: _____
Telephone: () _____ Telephone: () _____
Facsimile: () _____ Facsimile: () _____
Email: _____ Email: _____
Email: _____ Email: _____
Federal ID No. _____ Federal ID No. _____

BROKER: _____ BROKER: _____
Attn: _____ Attn: _____
Title: _____ Title: _____
Address: _____ Address: _____
Telephone: () _____ Telephone: () _____
Facsimile: () _____ Facsimile: () _____
Email: _____ Email: _____
Federal ID No. _____ Federal ID No. _____
Broker/Agent DRE License #: _____ Broker/Agent DRE License #: _____

NOTICE: These forms are often modified to meet changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form: AIR Commercial Real Estate Association, 800 W 6th Street, Suite 800, Los Angeles, CA 90017. Telephone No. (213) 687-8777. Fax No.: (213) 687-8616.

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RENT ADJUSTMENT(S) STANDARD LEASE ADDENDUM

Dated December, 2011

By and Between (Lessor) Channel Technologies, Inc., a California corporation

(Lessee) Channel Technologies Group, LLC, a California limited liability company

Address of Premises: 839, 859/861 and 869/879 Ward Drive Santa Barbara, CA 93111

Paragraph 53

A. RENT ADJUSTMENTS:

The monthly rent for each month of the adjustment period(s) specified below shall be increased using the method(s) indicated below:

(Check Method(s) to be Used and Fill In Appropriately)

[x] I. Cost of Living Adjustment(s) (COLA)

a. On (Fill in COLA Dates): each anniversary of the Commencement Date (other than MRV Adjustment Dates)

the Base Rent shall be adjusted by the change, if any, from the Base Month specified below, in the Consumer Price Index of the Bureau of Labor Statistics of the U.S. Department of Labor for (select one): [x] CPI W (Urban Wage Earners and Clerical Workers) or [] CPI U (All Urban Consumers), for (Fill in Urban Area):

Los Angeles - Riverside - Orange County, California

(1982-1984 = 100), herein referred to as "CPI". All Items

b. The monthly rent payable in accordance with paragraph A.I.a. of this Addendum shall be calculated as follows: the Base Rent set forth in paragraph 1.5 of the attached Lease, shall be multiplied by a fraction the numerator of which shall be the CPI of the calendar month 2 months prior to the month(s) specified in paragraph A.I.a. above during which the adjustment is to take effect, and the denominator of which shall be the CPI of the calendar month which is 2 months prior to (select one): the [x] first month of the term of this Lease as set forth in paragraph 1.3 ("Base Month") or [] (Fill in Other "Base Month"); The sum so calculated shall constitute the new monthly rent hereunder, but in no event, shall any such new monthly rent be less than the rent payable for the month immediately preceding the rent adjustment. For purposes of the rent adjustment on the seventh (7th) anniversary of the Commencement Date and each adjustment thereafter, the Base Month shall be the calendar month which is two (2) months prior to the MRV Adjustment Date.

c. In the event the compilation and/or publication of the CPI shall be transferred to any other governmental department or bureau or agency or shall be discontinued, then the index most nearly the same as the CPI shall be used to make such calculation. In the event that the Parties cannot

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agree on such alternative index, then the matter shall be submitted for decision to the American Arbitration Association in accordance with the then rules of said Association and the decision of the arbitrators shall be binding upon the parties. The cost of said Arbitration shall be paid equally by the Parties.

II. Market Rental Value Adjustment(s) (MRV)

a. On (Fill in MRV Adjustment Date(s): the sixth (6th) anniversary of the Commencement Date

the Base Rent shall be adjusted to the "Market Rental Value" of the property as follows:

1) Four months prior to each Market Rental Value Adjustment Date described above, the Parties shall attempt to agree upon what the new MRV will be on the adjustment date. If agreement cannot be reached within thirty days, then:

(a) Lessor and Lessee shall immediately appoint a mutually acceptable appraiser or broker to establish the new MRV within the next 30 days. Any associated costs will be split equally between the Parties, or

(b) Both Lessor and Lessee shall each immediately make a reasonable determination of the MRV and submit such determination, in writing, to arbitration in accordance with the following provisions:

(i) Within 15 days thereafter, Lessor and Lessee shall each select an appraiser or broker ("Consultant" - check one) of their choice to act as an arbitrator. The two arbitrators so appointed shall immediately select a third mutually acceptable Consultant to act as a third arbitrator.

(ii) The 3 arbitrators shall within 30 days of the appointment of the third arbitrator reach a decision as to what the actual MRV for the Premises is, and whether Lessor's or Lessee's submitted MRV is the closest thereto. The decision of a majority of the arbitrators shall be binding on the Parties. The submitted MRV which is determined to be the closest to the actual MRV shall thereafter be used by the Parties.

(iii) If either of the Parties fails to appoint an arbitrator within the specified 15 days, the arbitrator timely appointed by one of them shall reach a decision on his or her own, and said decision shall be binding on the Parties.

(iv) The entire cost of such arbitration shall be paid by the party whose submitted MRV is not selected, i.e., the one that is NOT the closest to the actual MRV.

2) Notwithstanding the foregoing, the new MRV shall not be less than the rent payable for the month immediately preceding the rent adjustment.

b. Upon the establishment of each New Market Rental Value:

1) the new MRV will become the new "Base Rent" for the purpose of calculating any further Adjustments, and

2) the first month of each Market Rental Value term shall become the new 'Base Month' for the purpose of calculating any further Adjustments.

III. Fixed-Rental-Adjustment(s) (FRA)

~~The Base Rent shall be increased to the following amounts on the dates set forth below:--~~

~~On (Fill in FRA Adjustment Date(s):~~

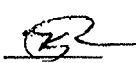
~~The New Base Rent shall be:--~~

B. NOTICE:

Unless specified otherwise herein, notice of any such adjustments, other than Fixed Rental Adjustments, shall be made as specified in paragraph 23 of the Lease.

C. BROKER'S FEE:

~~The Brokers shall be paid a Brokerage Fee for each adjustment specified above in accordance with paragraph 15 of the Lease.~~



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EXHIBIT A

LEGAL DESCRIPTION OF THE PREMISES

ALL THAT CERTAIN LAND SITUATED IN THE CITY OF GOLETA, COUNTY OF SANTA BARBARA, STATE OF CALIFORNIA DESCRIBED AS FOLLOWS:

PARCEL 1

THAT PORTION OF THE RANCHO LA GOLETA IN THE COUNTY OF SANTA BARBARA, STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

BEGINNING AT A 3/4 INCH PIPE SURVEY MONUMENT SET ON THE NORTHERLY LINE OF THE 2ND PARCEL OF LAND DESCRIBED IN THE DEED TO W.C. OAKLEY, JR., AND A. BONNETTI, RECORDED IN BOOK 3, PAGE 375 OF OFFICIAL RECORDS OF SAID COUNTY, FROM WHICH A 1-1/2 INCH PIPE SURVEY MONUMENT SET WITH ITS TOP ABOUT ONE FOOT BELOW SURFACE OF THE GROUND, AT THE NORTHEAST CORNER OF SAID SECOND PARCEL OF LAND DESCRIBED IN SAID DEED BEARS SOUTH 82° 31' 38" EAST 195.75 FEET; THENCE SOUTH 0° 49' 30" WEST PARALLEL WITH THE EAST LINE OF SAID LAND 194.92 FEET TO A 3/4 INCH SURVEY MONUMENT; THENCE AT RIGHT ANGLES SOUTH 89° 10' 30" EAST 194.48 FEET TO A POINT ON SAID EAST LINE FROM WHICH A 1/2 INCH PIPE SURVEY MONUMENT BEARS NORTH 89° 10' 30" WEST 40.00 FEET; THENCE SOUTH 0° 49' 30" WEST ALONG SAID EAST LINE 662.8 FEET TO THE TRUE POINT OF BEGINNING; THENCE AT RIGHT ANGLES NORTH 89° 10' 30" WEST 451.10 FEET TO THE SOUTHEASTERLY LINE OF THE TRACT OF LAND DESCRIBED IN THE DEED TO THE STATE OF CALIFORNIA, RECORDED DECEMBER 28, 1960, AS INSTRUMENT NO. 40066, IN BOOK 1811, PAGE 265 OF OFFICIAL RECORDS, RECORDS OF SAID COUNTY; THENCE SOUTH 33° 38' 40" WEST ALONG SAID SOUTHEASTERLY LINE 207.05 FEET; THENCE SOUTH 89° 10' 30" EAST 375.32 FEET; THENCE, NORTH 0° 49' 30" EAST, 154.00 FEET, THENCE SOUTH 89° 10' 30" EAST, 188.00 FEET; THENCE NORTH 0° 49' 30" EAST, 20.00 FEET TO THE TRUE POINT OF BEGINNING.

APN 071-170-77 (AKA 839 Ward Dr.)

PARCEL 2

PARCEL B OF PARCEL MAP NO. 12-943 ON FILE IN BOOK 24, PAGES 96 AND 97, OF PARCEL MAPS IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

APN 071-170-078 (AKA 859/861 and 869/879 Ward Dr.)


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EXHIBIT A


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OPTION(S) TO EXTEND STANDARD LEASE ADDENDUM

Dated December, 2011

By and Between (Lessor) Channel Technologies, Inc., a California corporation

By and Between (Lessee) Channel Technologies Group, LLC, a California limited liability company

Address of Premises: 839, 859/861 and 869/879 Ward Drive
Santa Barbara, CA 93111

Paragraph 54

A. OPTION(S) TO EXTEND:

Lessor hereby grants to Lessee the option to extend the term of this Lease for two (2) additional twenty-four (24) month period(s) commencing when the prior term expires upon each and all of the following terms and conditions:

(i) In order to exercise an option to extend, Lessee must give written notice of such election to Lessor and Lessor must receive the same at least 9 but not more than 12 months prior to the date that the option period would commence, time being of the essence. If proper notification of the exercise of an option is not given and/or received, such option shall automatically expire. Options (if there are more than one) may only be exercised consecutively.

(ii) The provisions of paragraph 39, including those relating to Lessee's Default set forth in paragraph 39.4 of this Lease, are conditions of this Option.

(iii) Except for the provisions of this Lease granting an option or options to extend the term, all of the terms and conditions of this Lease except where specifically modified by this option shall apply.

(iv) This Option is personal to the original Lessee, and cannot be assigned or exercised by anyone other than said original Lessee and only while the original Lessee is in full possession of the Premises and without the intention of thereafter assigning or subletting.

(v) The monthly rent for each month of the option period shall be calculated as follows, using the method(s) indicated below:
(Check Method(s) to be Used and Fill In Appropriately)

i. Cost of Living Adjustment(s) (COLA)

a. On (Fill in COLA Dates): each anniversary of the Commencement Date (other than MRV Adjustment Dates)

the Base Rent shall be adjusted by the change, if any, from the Base Month specified below, in the Consumer Price Index of the Bureau of Labor Statistics of the U.S. Department of Labor for (select one): CPI W (Urban Wage Earners and Clerical Workers) or CPI U (All Urban Consumers), for (Fill in Urban Area):

Los Angeles - Riverside - Orange County, California
All Items (1982-1984 = 100), herein referred to as "CPI".

b. The monthly rent payable in accordance with paragraph A.i.a. of this Addendum shall be calculated as follows: the Base Rent set forth in

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paragraph 1.5 of the attached Lease, shall be multiplied by a fraction the numerator of which shall be the CPI of the calendar month 2 months prior to the month(s) specified in paragraph A.1.a. above during which the adjustment is to take effect, and the denominator of which shall be the CPI of the calendar month which is 2 months prior to (select one): the first month of the term of this Lease as set forth in paragraph 1.3 ("Base Month") or (Fill in Other "Base Month"):

The sum so calculated shall constitute the new monthly rent hereunder, but in no event, shall any such new monthly rent be less than the rent payable for the month immediately preceding the rent adjustment.

c. In the event the compilation and/or publication of the CPI shall be transferred to any other governmental department or bureau or agency or shall be discontinued, then the index most nearly the same as the CPI shall be used to make such calculation. In the event that the Parties cannot agree on such alternative index, then the matter shall be submitted for decision to the American Arbitration Association in accordance with the then rules of said Association and the decision of the arbitrators shall be binding upon the parties. The cost of said Arbitration shall be paid equally by the Parties.

II. Market Rental Value Adjustment(s) (MRV)

a. On (Fill in MRV Adjustment Date(s)) the first day of each option period

the Base Rent shall be adjusted to the "Market Rental Value" of the property as follows:

1) Four months prior to each Market Rental Value Adjustment Date described above, the Parties shall attempt to agree upon what the new MRV will be on the adjustment date. If agreement cannot be reached, within thirty days, then:

(a) Lessor and Lessee shall immediately appoint a mutually acceptable appraiser or broker to establish the new MRV within the next 30 days. Any associated costs will be split equally between the Parties, or

(b) Both Lessor and Lessee shall each immediately make a reasonable determination of the MRV and submit such determination, in writing, to arbitration in accordance with the following provisions:

(i) Within 16 days thereafter, Lessor and Lessee shall each select an appraiser or broker ("Consultant" - check one) of their choice to act as an arbitrator. The two arbitrators so appointed shall immediately select a third mutually acceptable Consultant to act as a third arbitrator.

(ii) The 3 arbitrators shall within 30 days of the appointment of the third arbitrator reach a decision as to what the actual MRV for the Premises is, and whether Lessor's or Lessee's submitted MRV is the closest thereto. The decision of a majority of the arbitrators shall be binding on the Parties. The submitted MRV which is determined to be the closest to the actual MRV shall thereafter be used by the Parties.

(iii) If either of the Parties fails to appoint an arbitrator within the specified 15 days, the arbitrator timely appointed by one of them shall reach a decision on his or her own, and said decision shall be binding on the Parties.

(iv) The entire cost of such arbitration shall be paid by the party whose submitted MRV is not selected, i.e. the one that is NOT the closest to the actual MRV.

2) Notwithstanding the foregoing, the new MRV shall not be less than the rent payable for the month immediately preceding the rent adjustment.

b. Upon the establishment of each New Market Rental Value:

1) the new MRV will become the new "Base Rent" for the purpose of calculating any further Adjustments, and

2) the first month of each Market Rental Value term shall become the new "Base Month" for the purpose of calculating any further Adjustments.

III. Fixed-Rental-Adjustment(s) (FRA)

The Base Rent shall be increased to the following amounts on the dates set forth below:--

On (Fill in FRA Adjustment Date(s)):

The New Base Rent shall be:--

BL
INITIALS

AL
INITIALS

B. NOTICE:

Unless specified otherwise herein, notice of any rental adjustments, other than Fixed Rental Adjustments, shall be made as specified in paragraph 23 of the Lease.

~~C. BROKER'S FEE:~~

~~The Brokers shall be paid a Brokerage Fee for each adjustment specified above in accordance with paragraph 15 of the Lease.~~

NOTICE: These forms are often modified to meet changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form: AIR Commercial Real Estate Association, 800 W 6th Street, Suite 800, Los Angeles, CA 90017. Telephone No. (213) 687-8777. Fax No.: (213) 687-8816.

BSL
INITIALS

PAGE 3 OF 3

AL
INITIALS

Exhibit "F"

Confidentiality and Proprietary Rights Agreement

[To be Attached]

Confidentiality and Proprietary Rights Agreement (California)

This Employee Confidentiality and Proprietary Rights Agreement ("**Agreement**") is entered into by and between Channel Technologies Group, LLC, a California limited liability company (the "**Employer**"), Employer being a Debtor and Debtor in Possession under Case No. 9:16-bk-11912-PC (the "**Case**") in the United States Bankruptcy Court for the Central District of California – Northern Division (the "**Bankruptcy Court**") and [TRANSFERRED EMPLOYEE NAME] (the "**Transitioning Employee**") (the Employer and the Transitioning Employee are collectively referred to herein as the "**Parties**") as of _____, 2017 (the "**Effective Date**") with respect to the following facts and circumstances:

- A. Employer and Sonatech, LLC, a California limited liability company ("**Sonatech**") are parties to that certain Asset Purchase Agreement dated February __, 2017 (the "**Sonatech APA**") pursuant to which Sonatech is acquiring from Employer certain specified and limited assets of Employer, all as more particularly described in the Sonatech APA (such assets of Employer being so acquired are referred to herein as the "**Sonatech Assets**").
- B. Transitioning Employee has been (and was as of the execution of the Sonatech APA) an employee of Employer and concurrently with the consummation of the transactions contemplated by the Sonatech APA will leave Employer's employ and become an employee of Sonatech.
- C. While employed by Employer, Transitioning Employee has had access to and acquired knowledge of much secret, confidential and proprietary information and materials of Employer that does not comprise part of the Sonatech Assets.
- D. Employer is retaining substantially all of its business and assets (other than the Sonatech Assets) and wishes to protect such secret, confidential, and proprietary information and materials not comprising part of the Sonatech Assets from use, disclosure or exploitation following the consummation of the transactions contemplated by the Sonatech APA and Transitioning Employee leaving Employer's employ.
- E. Employer's obligation to consummate the transactions under the Sonatech APA are conditioned upon Transitioning Employee and others executing this Agreement. Transitioning Employee understands and acknowledges that, but for Transitioning Employee's execution and delivery of this Agreement, Employer is not willing to and would not proceed with the closing of the transactions provided for in the Sonatech APA.

In order to induce Employer to proceed with the consummation of the transactions under the Sonatech APA and understanding that Employer will do so in material reliance upon this Agreement, which the Transitioning Employee acknowledges to be good and valuable

consideration for [his/her] obligations hereunder, the Employer and the Transitioning Employee hereby agree as follows:

1. Confidentiality and Security.

(a) Confidential Information.

The Transitioning Employee understands and acknowledges that during the course of employment by the Employer, [he/she] has had access to and learned about confidential, secret and proprietary documents, materials and other information, in tangible and intangible form, of and relating to the Employer and its businesses and existing and prospective customers, suppliers, investors and other associated third parties (expressly excluding any of the foregoing that relate solely and exclusively to the Sonatech Assets, the "**Confidential Information**"). The Transitioning Employee further understands and acknowledges that this Confidential Information and the Employer's ability to reserve it for the exclusive knowledge and use of the Employer is of great competitive importance and commercial value to the Employer, and that improper use or disclosure of the Confidential Information by the Transitioning Employee might cause the Employer to incur financial costs, loss of business advantage, liability under confidentiality agreements with third parties, civil damages and criminal penalties.

For purposes of this Agreement, except in each case to the extent any of the following comprise part of the Sonatech Assets, Confidential Information includes, but is not limited to, all information not generally known to the public, in spoken, printed, electronic or any other form or medium, relating directly or indirectly to: business processes, practices, methods, plans, documents, research, development, operations, strategies, techniques, agreements, contracts, terms of agreements, potential transactions, negotiations, pending negotiations, know-how, trade secrets, computer programs, computer software, applications, operating systems, software design, work-in-process, databases, manuals, records, systems, material, sources of material, supplier information, vendor information, financial information, accounting information and records, pricing information, design information, personnel information, employee lists, supplier lists, vendor lists, internal controls, security procedures, sales information, costs, formulae, algorithms, product plans, designs, models, molds, ideas, inventions, unpublished patent applications, original works of authorship, discoveries, experimental processes and results, specifications, customer information, customer lists, manufacturing information, and factory lists of the Employer or its businesses or of any existing or prospective customer, supplier, or other associated third party, or of any other person or entity that has entrusted information to the Employer in confidence.

The Transitioning Employee understands that the above list is not exhaustive, and that Confidential Information also includes other information that is marked or otherwise identified as confidential or proprietary, or that would otherwise appear to a reasonable person to be confidential or proprietary in the context and circumstances in which the information is known or used.

The Transitioning Employee understands and agrees that Confidential Information heretofore developed by [him/her] in the course of [his/her] employment by the

Employer shall be subject to the terms and conditions of this Agreement as if the Employer furnished the same Confidential Information to the Transitioning Employee in the first instance. Confidential Information shall not include information that is generally available to and known by the public at the time it was disclosed to the Transitioning Employee, provided that such disclosure was through no direct or indirect fault of the Transitioning Employee or person(s) acting on the Transitioning Employee's behalf.

(b) Disclosure and Use Restrictions.

The Transitioning Employee agrees and covenants: (i) to treat all Confidential Information as strictly confidential; (ii) not to directly or indirectly disclose, publish, communicate or make available Confidential Information, or allow it to be disclosed, published, communicated or made available, in whole or part, to Sonatech or any other entity or person whatsoever (including other former employees of the Employer); and (iii) not to access or use any Confidential Information, and not to copy any documents, records, files, media or other resources containing any Confidential Information, or remove any such documents, records, files, media or other resources from the premises or control of the Employer. Nothing herein shall be construed to prevent disclosure of Confidential Information as may be required by applicable law or regulation, or pursuant to the valid order of a court of competent jurisdiction or an authorized government agency, provided that the disclosure does not exceed the extent of disclosure required by such law, regulation or order. The Transitioning Employee shall promptly provide written notice of any such order to an authorized officer of the Employer within 24 hours of receiving such order, but in any event sufficiently in advance of making any disclosure to permit the Employer to contest the order or seek confidentiality protections, as determined in the Employer's sole discretion. In addition, this Section does not, in any way, restrict or impede the Transitioning Employee from disclosing information as permitted by law.

(c) Duration of Confidentiality Obligations.

The Transitioning Employee understands and acknowledges that [his/her] obligations under this Agreement with regard to any particular Confidential Information shall commence immediately upon the Effective Date and shall continue (a) with respect to Confidential Information that is eligible for protection under applicable law as a "trade secret," for so long as such Confidential Information continues to be eligible for protection as a "trade secret" (without regard to any breach by Transitioning Employee of the obligations imposed upon Transitioning Employee hereunder), and (b) with respect to all other Confidential Information of Employer, until such time as such Confidential Information has become available to the public other than as a result of the Transitioning Employee's breach of this Agreement or breach by those acting in concert with the Transitioning Employee or on the Transitioning Employee's behalf.

2. Inventions.

(a) Employer Inventions.

The assignment provisions in **Section 2(b)** shall apply only to "**Employer Inventions**" as defined herein. Employer Inventions shall mean any inventions, improvements, developments, ideas or discoveries whether patentable or unpatentable (collectively hereinafter referred to as "**Inventions**") that is not part of the Sonatech Assets and which meets any one of the following criteria:

(i) Related, at the time of conception or reduction to practice of the Invention to: (A) the Employer's business, project or products, or to the manufacture or utilization thereof; or (B) the actual or demonstrably anticipated research or development of the Employer.

(ii) Resulted from any work performed directly or indirectly by the Transitioning Employee for the Employer.

(iii) Resulted, at least in part, from the Transitioning Employee's use of the Employer's time, equipment, supplies, facilities or trade secret information.

Provided, however, that an Employer Invention shall not include any Invention which qualifies fully under the provisions of California Labor Code Section 2870 (a copy of which is attached as **Exhibit "A"** hereto), including any idea or invention which was developed entirely on the Transitioning Employee's own time without using the Employer's equipment, supplies, facilities or trade secret information, and which is not related to the Employer's business (either actual or demonstrably anticipated), and which did not result from work performed for the Employer.

(b) Assignment of Employer Inventions.

The Transitioning Employee hereby assigns, and agrees to assign, to the Employer, all [his/her] rights, title and interest in and to all Employer Inventions.

(c) Execution of Necessary Documents.

The Transitioning Employee agrees that, upon request and without compensation therefor, but at no expense to the Transitioning Employee, the Transitioning Employee will all do lawful acts, including the execution of papers and lawful oaths and the giving of testimony, that in the opinion of the Employer, its successors and assigns, may be necessary or desirable in obtaining, sustaining, reissuing, extending or enforcing United States and foreign Letters Patent, including Design Patents, on all of such Employer Inventions, and for perfecting, affirming, maintaining or recording the Employer's complete ownership and title thereto, and to otherwise cooperate in all proceedings and matters relating thereto.

The Transitioning Employee hereby irrevocably grants the Employer power of attorney to execute and deliver any such documents on the Transitioning Employee's behalf in [his/her] name and to do all other lawfully permitted acts to transfer the Employer Inventions to the Employer and further the transfer, issuance, prosecution and maintenance of all rights

therein, to the full extent permitted by law, if the Transitioning Employee does not promptly cooperate with the Employer's request (without limiting the rights the Employer shall have in such circumstances by operation of law). The power of attorney is coupled with an interest and shall not be effected by the Transitioning Employee's subsequent incapacity.

(d) Work Made for Hire.

The Transitioning Employee acknowledges that, to the extent permitted by law, all writings, works of authorship, technology, inventions, discoveries, ideas and other work product of any nature whatsoever (collectively referred to as "**Work Product**") consisting of copyrightable subject matter authorized by Transitioning Employee during the term of Transitioning Employee's employment with Employer is "work made for hire" as defined in the Copyright Act of 1976 (17 U.S.C. § 101), and such copyrights are therefore owned by the Employer. For the avoidance of all doubt, nothing contained in this Agreement shall be construed to reduce or limit the Employer's rights, title or interest in any Work Product or Inventions so as to be less in any respect than that the Employer would have had in the absence of this Agreement.

(e) Moral Rights.

To the extent any copyrights are assigned under this Agreement, the Transitioning Employee hereby irrevocably waives, to the extent permitted by applicable law, any and all claims the Transitioning Employee may now or hereafter have in any jurisdiction to all rights of paternity, integrity, disclosure and withdrawal and any other rights that may be known as "moral rights" with respect to all Inventions and Work Product therein.

(f) No License.

The Transitioning Employee understands that this Agreement does not, and shall not be construed to, grant the Transitioning Employee any license or right of any nature with respect to any Inventions, Work Product, or any Confidential Information, materials, software or other tools made available to [him/her] by the Employer.

3. Security. The Transitioning Employee agrees and covenants not to access or use any of Employer's computer equipment, telephone systems, voicemail systems, facilities intranet, internet, social media and instant messaging systems, computer systems, e-mail systems, computer networks, document storage systems, software, data or any other Employer facilities, IT resources or communication technologies ("**Facilities Information Technology and Access Resources**").

4. Non-Disparagement. The Transitioning Employee agrees and covenants that [he/she] will not at any time make, publish or communicate to any person or entity or in any public forum any defamatory or disparaging remarks, comments or statements concerning the Employer's products or services, or make any maliciously false statements about the Employer's employees and officers.

5. Acknowledgement. The Transitioning Employee acknowledges and agrees that the services heretofore rendered by [him/her] to the Employer are and were of a special and unique character; that the Transitioning Employee obtained knowledge and skill relevant to the Employer's industry, methods of doing business and marketing strategies by virtue of the Transitioning Employee's employment; and that the terms and conditions of this Agreement are reasonable under these circumstances. The Transitioning Employee further acknowledges that [he/she] will not be subject to undue hardship by reason of [his/her] full compliance with the terms and conditions of this Agreement or the Employer's enforcement thereof; and that this Agreement is not a contract of employment and shall not be construed as a commitment by either of the Parties to continue an employment relationship for any certain period of time.

6. Remedies. The Transitioning Employee acknowledges that the Employer's Confidential Information and the Employer's ability to reserve it for the exclusive knowledge and use of the Employer is of great competitive importance and commercial value to the Employer, and that improper use or disclosure of the Confidential Information by the Transitioning Employee will cause irreparable harm to the Employer, for which remedies at law will not be adequate. In the event of a breach or threatened breach by the Transitioning Employee of any of the provisions of this Agreement, the Transitioning Employee hereby consents and agrees that the Employer shall be entitled to seek, in addition to other available remedies, a temporary or permanent injunction or other equitable relief against such breach or threatened breach from any court of competent jurisdiction, without the necessity of showing any actual damages or that monetary damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall be in addition to, not in lieu of, legal remedies, monetary damages or other available forms of relief.

7. Successors and Assigns.

(a) Assignment by the Employer.

The Employer may assign this Agreement to any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the then remaining business or assets of the Employer. This Agreement shall inure to the benefit of the Employer and permitted successors and assigns.

(b) No Assignment by the Transitioning Employee.

The Transitioning Employee may not assign this Agreement or any part hereof. Any purported assignment by the Transitioning Employee shall be null and void from the initial date of purported assignment.

8. Governing Law; Jurisdiction and Venue. This Agreement, for all purposes, shall be construed in accordance with the laws of California without regard to conflicts-of-law principles. Any action or proceeding by either Party to enforce this Agreement shall be brought (i) only in the Bankruptcy Court for so long as the Case remains open, and (ii) thereafter, only in any state or federal court located in the state of California, county of Santa Barbara. The Parties hereby

irrevocably submit to the exclusive jurisdiction of such courts during the applicable periods set forth in clauses (i) and (ii) above, respectively, and waive the defense of inconvenient forum to the maintenance of any such action or proceeding in such venue brought in accordance with the requirements of clauses (i) and (ii) of the preceding sentence.

9. Entire Agreement. Unless specifically provided herein, this Agreement contains all the understandings and representations between the Transitioning Employee and the Employer pertaining to the subject matter hereof and supersedes all prior and contemporaneous understandings, agreements, representations and warranties, both written and oral, with respect to such subject matter; provided, however, that Transitioning Employee's obligations under this Agreement shall not be deemed to discharge or relieve any obligations Transitioning Employee would have to Employer in the absence of this Agreement.

10. Modification and Waiver. No provision of this Agreement may be amended or modified unless such amendment or modification is agreed to in writing and signed by the Transitioning Employee and by a duly-authorized representative of the Employer. No waiver by either of the Parties of any breach by the other party hereto of any condition or provision of this Agreement to be performed by the other party hereto shall be deemed a waiver of any similar or dissimilar provision or condition at the same or any prior or subsequent time, nor shall the failure of or delay by either of the Parties in exercising any right, power or privilege hereunder operate as a waiver thereof to preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

11. Severability. Should any provision of this Agreement be held by a court of competent jurisdiction to be enforceable only if modified, or if any portion of this Agreement shall be held as unenforceable and thus stricken, such holding shall not affect the validity of the remainder of this Agreement, the balance of which shall continue to be binding upon the Parties with any such modification to become a part hereof and treated as though originally set forth in this Agreement. The Parties further agree that any such court is expressly authorized to modify any such unenforceable provision of this Agreement in lieu of severing such unenforceable provision from this Agreement in its entirety, whether by rewriting the offending provision, deleting any or all of the offending provision, adding additional language to this Agreement or by making such other modifications as it deems warranted to carry out the intent and agreement of the Parties as embodied herein to the maximum extent permitted by law. The Parties expressly agree that this Agreement as so modified by the court shall be binding upon and enforceable against each of them. In any event, should one or more of the provisions of this Agreement be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions hereof, and if such provision or provisions are not modified as provided above, this Agreement shall be construed as if such invalid, illegal or unenforceable provisions had not been set forth herein.

12. Attorneys' Fees. In the event that either Party hereto brings an action or other proceeding to enforce or interpret the terms and provisions of this Agreement, the prevailing Party in that action or proceeding shall be entitled to have and recover from the non-prevailing Party all such

fees, costs and expenses (including, without limitation, all court costs and reasonable attorneys' fees) as the prevailing Party may suffer or incur in the pursuit or defense of such action or proceeding.

13. Captions. Captions and headings of the sections and paragraphs of this Agreement are intended solely for convenience and no provision of this Agreement is to be construed by reference to the caption or heading of any section or paragraph.

14. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Effective Date above.

Channel Technologies Group, LLC, a
California limited liability company,
Debtor and Debtor in Possession

By: _____
Name: David Tiffany
Title: Chief Restructuring Officer

[TRANSITIONING EMPLOYEE
NAME]

Signature: _____

Print Name: _____

Exhibit "A"

Copy of California Labor Code Section 2870

[To Be Attached]

Exhibit "G"

Approval Order

[To be Attached]

1 Laura Davis Jones (DE Bar No. 2436) (*Admitted Pro Hac Vice*)
Jeffrey W. Dulberg (CA Bar No. 181200)
2 Victoria A. Newmark (CA Bar No. 183581)
PACHULSKI STANG ZIEHL & JONES LLP
3 10100 Santa Monica Blvd., 13th Floor
Los Angeles, CA 90067
4 Telephone: 310/277-6910
Facsimile: 310/201-0760
5 E-mail: ljones@pszjlaw.com
jdulberg@pszjlaw.com
6 vnewmark@pszjlaw.com

7 Attorneys for Channel Technologies Group, LLC, Debtor and
Debtor in Possession

8
9 **UNITED STATES BANKRUPTCY COURT**
10 **CENTRAL DISTRICT OF CALIFORNIA**
11 **NORTHERN DIVISION**

12 In re:
13 **CHANNEL TECHNOLOGIES GROUP,**
14 **LLC,¹**
Debtor.

Case No.: 9:16-bk-11912-PC

Chapter 11

**ORDER AUTHORIZING DEBTOR TO
ENTER INTO ASSET PURCHASE
AGREEMENT WITH AND SELL PROPERTY
FREE AND CLEAR THROUGH PRIVATE
SALE TO SONATECH, LLC**

Hearing

Date: March 22, 2017

Time: 10:00 a.m.

Place: Courtroom "201"

1415 State Street
Santa Barbara, CA 93101

Judge: Hon. Peter H. Carroll

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22 **THIS MATTER CAME BEFORE THE COURT** at the above-captioned date and time
23 before the Honorable Peter H. Carroll, United States Bankruptcy Judge, to consider the *Motion for*
24 *Order Authorizing Debtor to Enter Into Asset Purchase Agreement and Sell Property Free and*
25 *Clear Through Private Sale to Sonatech, LLC* [Dkt. No. ____] (the "Motion"), filed on March 1,
26 2017.² The Court having considered the Motion and the Declaration of David Tiffany in support

27
28 ¹ The last four digits of the Debtor's Tax Identification Number are: 0460. The Debtor's mailing address is: 879 Ward
Drive, Santa Barbara, CA 93111.

² Capitalized terms not defined herein shall take the meaning ascribed thereto in the Motion.

1 thereof, and finding that notice of the Motion was appropriate and sufficient and that no other notice
2 need be given, after due deliberation and sufficient cause appearing therefor

3 **THE COURT HEREBY FINDS AS FOLLOWS:**

4 A. This Court has jurisdiction to hear and determine the Motion pursuant to 28 U.S.C.
5 §§ 157 and 1334.

6 B. Venue of this case in this district is proper pursuant to 28 U.S.C. §§ 1408 and
7 1409(a).

8 C. Determination of the Motion is a core proceeding under 28 U.S.C. § 157(b)(2)(A),
9 (M) and (N).

10 D. The statutory predicates for the relief requested herein are section 363 of the
11 Bankruptcy Code and Bankruptcy Rules 2002 and 6004.

12 E. Proper, timely, adequate and sufficient notice of the Motion has been provided in
13 accordance with Sections 102(1) and 363 of the Bankruptcy Code and Bankruptcy Rules 2002 and
14 6004 and no other or further notice of the Motion is required.

15 F. The terms of the APA³ are fair and reasonable in all respects and the terms of the
16 Order shall not modify the terms of the APA except as specifically set forth herein.

17 G. A reasonable opportunity to object or be heard with respect to the Motion and the
18 relief requested therein has been afforded to all interested persons and entities, including: (a) the
19 Office of the United States Trustee, (b) the creditors appearing on the list filed in accordance with
20 Bankruptcy Rule 1007(d) by the Debtor, (c) the United States of America by service to the Attorney
21 General of the United States and the United States Attorney for the Central District of California,
22 (d) parties that have filed with the Court and served upon the Debtor requests for notice of all
23 matters in accordance with Bankruptcy Rule 2002(i), (e) Blue Wolf Capital Fund II, L.P. (“Blue
24 Wolf”), and (f) other known parties that may assert an interest in the Property.

25 H. The transfer of the Property to Sonatech, LLC (the “Buyer”) pursuant to the APA is a
26 valid, legal and effective transfer of the Property to the Buyer, free and clear of all liens, claims,
27

28 ³ As used herein, “APA” shall mean that certain Bill of Sale and Agreement dated February 22, 2017, attached as Exhibit
“B” to the Motion, and any and all amendments, schedules and exhibits thereto, and all agreements and documents
contemplated thereby, executed in connection therewith, or related thereto.

1 interests and encumbrances whatsoever (other than the lien of current taxes not yet payable, if any,
2 with respect to any Property) (collectively, “Interests”) under section 363(f) of the Bankruptcy Code.

3 I. The Debtor may sell the Property free and clear of all Interests because, in each case,
4 one or more of the standards set forth in section 363(f)(1)-(5) of the Bankruptcy Code has been
5 satisfied. Those holders of Interests who did not object, or who withdrew their objections, to the
6 Motion are deemed to have consented pursuant to section 363(f)(2) of the Bankruptcy Code. Those
7 holders of Interests who did object are adequately protected by having their Interests, if any, attach
8 to the proceeds of the sale, with the same validity and priority as existed prior to the sale.

9 J. The APA is necessary to effectuate the transfer of the Property to the Buyer and the
10 other transactions contemplated in the APA and is enforceable pursuant to its terms and applicable
11 law.

12 K. The Debtor has demonstrated that approval of the APA and consummation of the Sale
13 at this time is in the best interests of the Debtor, the estate and its creditors. The Debtor has
14 advanced good and sufficient business justification supporting the sale of the Property to the Buyer
15 pursuant to section 363(b) of the Bankruptcy Code and outside of a plan of reorganization, as set
16 forth in the Motion and at the Hearing, and it is a reasonable exercise of the Debtor’s business
17 judgment to consummate a sale of the Property on the terms and conditions set forth in the APA, and
18 to execute, deliver and perform its obligations thereunder.

19 L. The Debtor has full corporate power and authority to execute and deliver the APA,
20 and documents contemplated thereby and to perform the transactions contemplated thereby; no
21 consents or approvals, other than those expressly provided for in the APA, are required for the
22 Debtor to consummate the Sale.

23 M. The consideration to be paid by the Buyer under the APA constitutes reasonably
24 equivalent value and fair consideration under the Bankruptcy Code and under the laws of the United
25 States, and any state, territory or possession of the United States or the District of Columbia.

26 N. The APA was negotiated, proposed and entered into in a non-collusive, good faith,
27 “arm’s-length” manner by the Debtor and the Buyer. The transaction proposed in the APA
28 constitutes the highest or otherwise best offer for the Property received by the Debtor. Buyer is a

1 good faith Buyer of the Property. The Buyer is entitled to the protections of a good faith purchaser
2 pursuant to section 363(m) of the Bankruptcy Code with respect to the transactions approved hereby.

3 O. Authorizing the Sale as a private sale is justified by the exigent circumstances,
4 including the Debtor's marketing efforts, the lengthy arm's length negotiations between the parties
5 each represented by counsel and the Debtor's anticipated cessation of operations as part of its
6 contemplated sales and wind down.

7 P. The Buyer would not have entered into the APA and would not consummate the
8 transactions contemplated thereby, thus adversely affecting the Debtor, its estate and its creditors, if
9 the sale of the Property to the Buyer was not free and clear of all Interests of any kind or nature
10 whatsoever, or if the Buyer would, or in the future could, be liable for any of the Interests.

11 Q. The Debtor does not have any interest in the Buyer or any party affiliated with the
12 Buyer.

13 R. The Buyer is not an "insider" of the Debtor or any party affiliated with the Debtor, as
14 that term is defined in section 101 of the Bankruptcy Code.

15 S. Time is of the essence in consummating the sale. In order to maximize the value of
16 the Property and preserve the viability of the business as a going concern, it is essential that the sale
17 of the Property occur immediately. Accordingly, there is cause to determine inapplicable the stay
18 contemplated by Bankruptcy Rule 6004(h).

19 T. Approval of the APA and consummation of the Sale at this time are in the best
20 interests of the Debtor, its creditors, its estate and other parties in interest.

21 **NOW, THEREFORE, IT IS HEREBY ORDERED, ADJUDGED AND DECREED AS**
22 **FOLLOWS:**

23 1. The Motion is granted and approved in all respects.

24 2. This Court has jurisdiction to hear and determine the Motion pursuant to 28 U.S.C.
25 § 1334.

26 3. As evidenced by the declarations of service previously filed with this Court, proper,
27 timely, adequate and sufficient notice of the Motion, the Hearing and the Sale has been provided in
28 accordance with sections 102(1) and 363 of the Bankruptcy Code and Bankruptcy Rules 2002 and

1 6004, and no other or further notice of the Motion, the Hearing or of the entry of this order is
2 required.

3 4. All objections to the Motion not withdrawn are overruled and denied.

4 5. Where appropriate herein, findings of fact shall be deemed conclusions of law and
5 conclusions of law shall be deemed findings of fact.

6 6. Each and every term and provision of this Order shall be binding in all respects upon
7 the Buyer, the Debtor, the Debtor's bankruptcy estate, any trustee who may be appointed after entry
8 of this Order, its creditors, and all individuals or entities holding an interest in the Debtor, including,
9 without limitation, any entity purporting to hold an Interest in the Buyer.

10 7. The Sale of the Property to Buyer on the terms and conditions set forth in the APA is
11 hereby approved.

12 8. The Debtor is authorized to proceed with the Sale. The Debtor and each other person
13 having duties or responsibilities under the APA or this Order, and its respective members, managers,
14 directors, officers, agents, representatives, and attorneys, are authorized and empowered to carry out
15 all of the provisions of the APA, to issue, execute, deliver, file and record, as appropriate, the APA,
16 and any related agreements, and to take any action contemplated by the APA or this Order, and to
17 issue, execute, deliver, file and record, as appropriate, such other contracts, instruments, releases,
18 deeds, bills of sale, assignments, or other agreements, and to perform such other acts as are
19 consistent with, and necessary or appropriate to, implement, effectuate and consummate the APA
20 and this Order and the transactions contemplated thereby and hereby, all without further application
21 to, or order of, the Court or further action by the Debtor's members, managers, directors or
22 stockholders, and with like effect as if such actions had been taken by unanimous action of its
23 members, managers, directors and stockholders. Without limiting the generality of the foregoing,
24 this Order shall constitute all approvals and consents, if any, required by applicable business,
25 corporation, limited liability company, trust and other laws of applicable governmental units with
26 respect to the implementation and consummation of the APA and this Order and the transactions
27 contemplated thereby and hereby.

28 9. As and to the extent provided for in the APA, upon the Closing Date, all right, title

1 and interest in and to the Property shall be immediately vested in the Buyer pursuant to section
2 363(b) and (f) of the Bankruptcy Code free and clear of Interests, except for Assumed Liabilities.

3 10. Effective upon the Closing Date, any Interests (except for the Assumed Liabilities)
4 against the Property shall attach to the proceeds of the APA with the same extent, validity, priority
5 and effect, if any, as the Interests formerly had against the Property, subject to the Debtor's ability to
6 challenge the extent, validity, priority and effect of the Interests (except to the extent such ability is
7 limited by any financing order). Without limiting the generality of the foregoing, the liens of Blue
8 Wolf shall attach to the proceeds of the APA with the same extent, validity, priority and effect, if
9 any, as such liens formerly had against the Property, subject to the terms of the *Final Order*
10 *Pursuant to Sections 105, 361, 362, 363 and 364 of the Bankruptcy Code and Bankruptcy Rules*
11 *2002, 4001 and 9014: (1) Authorizing Postpetition Financing, (2) Granting Liens and Providing*
12 *Superpriority Administrative Expense Priority, (3) Authorizing Use of Cash Collateral and*
13 *Providing for Adequate Protection, and (4) Modifying the Automatic Stay* [Dkt. No. 110].

14 11. This Order is and shall be effective as a determination that all Interests (except for
15 Assumed Liabilities) existing as to the Property conveyed to the Buyer have, effective as of the
16 Closing Date, been and hereby are terminated and declared to be unconditionally released,
17 discharged and terminated, and such determination shall be binding upon and govern the acts of all
18 entities, including all filing agents, filing officers, administrative agencies or units, governmental
19 departments or units, secretaries of state, federal, state and local officials and all other persons and
20 entities who may be required by operation of law, the duties of their office, or contract, to accept,
21 file, register or otherwise record or release any documents or instruments, or who may be required to
22 report or insure any title or state of title in or to the Property conveyed to the Buyer. Each of the
23 Buyer and the Debtor may take such further steps and execute such further documents, assignments,
24 instruments and papers to implement and effectuate the transactions contemplated in this paragraph.
25 All Interests (except for Assumed Liabilities) of record as of the date of this Order and the Closing
26 Date shall be forthwith removed and stricken as against the Property.

27 12. Except for the Assumed Liabilities expressly assumed under the APA, the Buyer shall
28 not be liable for any claims against the Debtor, its predecessors or affiliates, and the Buyer shall

1 have no successor or vicarious liabilities of any kind or character whether known or unknown as of
2 the Closing Date, now existing or hereafter arising, whether fixed or contingent, with respect to the
3 Debtor. Except for the Assumed Liabilities expressly assumed under the APA, under no
4 circumstance will the Buyer be deemed a successor of or to the Debtor for any Interest against the
5 Debtor or the Property, and the Buyer shall have no liability as a successor to the Debtor. The sale,
6 transfer, assignment and delivery of the Property shall not be subject to any Interests, except that the
7 Buyer shall assume the Assumed Liabilities the Buyer is expressly required to assume under the
8 APA.

9 13. Upon the Closing of the transactions contemplated by the APA, the Buyer shall
10 assume the Assumed Liabilities in accordance with the express terms of the APA, including, but not
11 limited to, all responsibilities of the Debtor under the Property that arise from and after the Closing
12 Date as more specifically and to the extent provided in the APA.

13 14. Except as provided in the APA or this Order, after the Closing, the Debtor and the
14 estate shall have no further liabilities or obligations with respect to any Assumed Liabilities and all
15 holders of such claims are forever barred and estopped from asserting such claims against the
16 Debtor, its successors or assigns, its property or its assets or estate.

17 15. As the Sale was non-collusive, fair and reasonable and conducted in good faith, and
18 the transactions contemplated by the APA have been bargained for and undertaken by the Debtor
19 and the Buyer at arm's length and without collusion, the Sale approved by this Order is not subject
20 to avoidance pursuant to section 363(n) of the Bankruptcy Code.

21 16. Nothing contained in any plan of reorganization (or liquidation) confirmed in this
22 case or the order of confirmation confirming any plan of reorganization (or liquidation) shall conflict
23 with or derogate from the provisions of the APA or the terms of this Order. Further, the provisions
24 of this Order and any actions taken pursuant hereto shall survive the entry of any order which may
25 be entered converting the Debtor's case from Chapter 11 to a case under Chapter 7 of the
26 Bankruptcy Code.

27 17. The terms and provisions of the APA, together with the terms and provisions of this
28 Order, shall be binding in all respects upon, and shall inure to the benefit of, the Debtor, its estate,

1 any trustee appointed in this case (whether in Chapter 7 or Chapter 11), its creditors, the Buyer and
2 its respective affiliates, successors and assigns, and any affected third parties, including but not
3 limited to, any and all persons asserting a claim against or interest in the Debtor's estate or the
4 Property.

5 18. The APA may be modified, amended, or supplemented by the parties thereto, in a
6 writing signed by the parties in accordance with the terms thereof without further order of the Court,
7 provided that any such modification, amendment, or supplement is immaterial and the Debtor is
8 authorized to execute any additional documents reasonably necessary to consummate the
9 transactions set forth in the APA.

10 19. On the Closing Date, this Order will be construed and constitute for any and all
11 purposes a full and complete general assignment, conveyance and transfer of the Property or a bill of
12 sale transferring title in the Property to the Buyer. Each and every federal, state, and local
13 governmental agency or department shall be, and it hereby is, directed to accept any and all
14 documents and instruments, including this Order, necessary and appropriate to consummate the
15 transactions contemplated by the APA.

16 20. No bulk sales law, or similar law of any state or other jurisdiction shall apply in any
17 way to the transactions contemplated by the APA, the Motion or this Order.

18 21. Notwithstanding any other provision of the APA to the contrary, nothing in the APA
19 or other related documents implementing the transactions contemplated herein (collectively,
20 "Documents"), authorizes the transfer or assignment of any licenses, authorizations, guaranties,
21 leases, contracts, easements, rights of way, agreements or other interests of the United States relating
22 to the Navy Contracts (collectively, the "Federal Interests") without compliance with all applicable
23 legal requirements under non-bankruptcy law governing such transfers or assignments. Moreover,
24 without limiting the foregoing, nothing in the Documents shall be interpreted to set cure amounts
25 with respect to any Navy Contract or to require the United States to novate or otherwise consent to
26 the transfer of any Federal Interests. The United States' rights to offset or recoup any amounts due
27 under, or relating to, any Federal Interests are expressly preserved. Further, the Debtor's rights and
28 defenses with respect to the United States' offset or recoupment of any amounts due under, or

1 relating to, any Federal Interests are expressly preserved.

2 22. Because the Court finds that the Buyer is a good faith purchaser within the meaning
3 of section 363(m) of the Bankruptcy Code, in the event that the parties to the Sale consummate the
4 transactions contemplated thereby while an appeal of this Order is pending, the Buyer shall be
5 entitled to rely upon the protections of section 363(m) of the Bankruptcy Code, absent any stay
6 pending appeal granted by a court of competent jurisdiction prior to such consummation.

7 23. This Court retains jurisdiction to:

8 a. Interpret, implement and enforce the terms and provisions of this Order and
9 the terms of the APA, all amendments thereto and any waivers and consents thereunder and of each
10 of the agreements executed in connection therewith or related thereto;

11 b. Compel delivery of the Property to the Buyer;

12 c. Until the entry of a final decree in this case, resolve any disputes arising under
13 or related to the Sale; and

14 d. Adjudicate all issues concerning alleged Interests and any other alleged
15 interests in and to the Property or the proceeds of the Sale, including the extent, validity,
16 enforceability, priority and nature of all such alleged interests relating to the proceeds of the Sale.

17 24. Notwithstanding Bankruptcy Rules 6004 and 7062, this Order shall be effective and
18 enforceable immediately upon entry and its provisions shall be self-executing, and the Motion or
19 notice thereof shall be deemed to provide sufficient notice of the Debtors' request for waiver of the
20 otherwise applicable stay of the order. This Order shall be effective immediately upon entry
21 pursuant to Rule 7062 and 9014 of the Federal Rules of Bankruptcy Procedure.

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23 ###
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Exhibit “H”

List of Customers

[To be Attached]

Redacted.

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is:
10100 Santa Monica Blvd., 13th Floor, Los Angeles, CA 90067

A true and correct copy of the foregoing document entitled (*specify*): **NOTICE OF MOTION AND MOTION FOR AN ORDER AUTHORIZING DEBTOR TO ENTER INTO ASSET PURCHASE AGREEMENT AND SELL PROPERTY FREE AND CLEAR THROUGH PRIVATE SALE TO SONATECH, LLC; MEMORANDUM OF POINTS AND AUTHORITIES; DECLARATION OF DAVID TIFFANY** will be served or was served (**a**) on the judge in chambers in the form and manner required by LBR 5005-2(d); and (**b**) in the manner stated below:

1. TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF): Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On (*date*) **March 1, 2017**, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

Service information continued on attached page

2. SERVED BY UNITED STATES MAIL:

On **March 1, 2017**, I served the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows. Listing the judge here constitutes a declaration that mailing to the judge will be completed no later than 24 hours after the document is filed.

Sonatech, LLC
Attn: Mr. Mark Shaw
5535 Huntington Drive
Santa Barbara, CA 93111

Counsel for Sonatech, LLC
Reicker, Pfau, Pyle & McRoy LLP
Attn: Michael E. Pfau
1421 State Street, Suite B
Santa Barbara, CA 93101

Service information continued on attached page

3. SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL (*state method for each person or entity served*): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on (*date*) **March 1, 2017**, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

By Federal Express

The Honorable Peter H. Carroll
United States Bankruptcy Court
Central District of California
1415 State Street, Suite 230 / Ctrm. 201
Santa Barbara, CA 93101

Service information continued on attached page

I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct.

March 1, 2017
Date

Nancy H. Brown
Printed Name

/s/ Nancy H. Brown
Signature

Mailing Information for Case 9:16-bk-11912-PC

1. TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF):

- Daniel Denny ddenny@gibsondunn.com
- Brian D Fittipaldi brian.fittipaldi@usdoj.gov
- Michael S Greger mgreger@allenmatkins.com
- William W Huckins whuckins@allenmatkins.com, clynch@allenmatkins.com
- Elan S Levey elan.levey@usdoj.gov, louisalin@usdoj.gov
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- Samuel A Newman sneyman@gibsondunn.com
- Victoria Newmark vnewmark@pszjlaw.com
- Reed H Olmstead reed@olmstead.law, olmstead.ecf@gmail.com
- United States Trustee (ND) ustpregion16.nd.ecf@usdoj.gov
- Alan J Watson alan.watson@hklaw.com, gloria.hoshiko@hklaw.com

2. SERVED BY UNITED STATES MAIL:

Channel Technologies Group, LLC
Ch 11 Case No.: 9:16-bk-11912-PC
2002 Service List

Debtor

Channel Technologies Group, LLC
Attn: David Tiffany
Chief Restructuring Officer
879 Ward Drive
Santa Barbara, CA 93111

Brian Fittipaldi, Esq.
United States Trustee
128 East Carrillo Street
Santa Barbara, CA 93101

United States Trustee
915 Wilshire Blvd., Suite 1850
Los Angeles, CA 90017

Charles Miller, Member
5916 Carnegie Lane
Plano, Texas 75093

CR3 Partners
Attn: William Snyder; David Tiffany;
Robert Carringer; Michael Nguyen
13727 Noel Road, Suite 200
Dallas, TX 75240

Claims Agent

Prime Clerk
Attn: Michael J. Frishberg
830 3rd Avenue
New York, NY 10022

Bank

CIT/One West
Gordon Lenarth, Director
Treasury Management Group
888 East Walnut Street
Pasadena, CA 91101
Email: gordon.lenarth@cit.com

Government Entities

Jeff Sessions
U.S. Attorney General
U.S. Dept. of Justice
950 Pennsylvania Avenue NW
Washington, D.C. 20530-0001

U.S. Dept. of Justice
Ben Franklin Station
P.O. Box 683
Washington, DC 20044

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Dorothy A. Schouten, AUSA, Civil Chief
Elan S. Levey, AUSA
United States Attorney's Office
312 North Spring Street, Suite 1200
Los Angeles, CA 90012

Kamala D. Harris
State of California
Office of the Attorney General
1300 "I" Street
Sacramento, CA 95814-2919

Felix E. Leatherwood
Supervising Deputy AG
Brain D. Wesley, Deputy AG
300 South Spring Street, Suite 1702
Los Angeles, CA 90013

DFAS
Attn: Office of the General Counsel
8899 East 56th Street
Indianapolis, IN 46349-0160

Internal Revenue Service
P.O. Box 7346
Philadelphia, PA 19101-7346

Internal Revenue Service
1332 Anacapa St.
Santa Barbara, CA 93101

CA Franchise Tax Board
BK Section, MS: A-340
P.O. Box 2952
Sacramento, CA 95812-2952

Littleton Massachusetts Chief Assessor
Attn: Katherine Miller
37 Shattuck Street, Room 206
Littleton, MA 01460

Littleton Massachusetts Tax Collector
Attn: Deborah Richards
37 Shattuck Street, Room 207
Littleton, MA 01460

CA Franchise Tax Board
P.O. Box 942857
Sacramento, CA 95812-2952

Santa Barbara County Tax Collector
Attn: Harry E. Hagen
105 East Anapamu Street, Suite 109
Santa Barbara, CA 93102

Employment Development Dept.
Bankruptcy Group MIC 92E
P.O. Box 826880
Sacramento, CA 94280-0001

State Board of Equalization
Special Operations BK Team, MIC: 74
P.O. Box 942879
Sacramento, CA 94279-0074

Massachusetts Dept. of Revenue
P.O. Box 9550
Boston, MA 02114-9550

Massachusetts Dept. of Revenue
P.O. Box 7010
Boston, MA 02204

TOP 20 LARGEST

BAE Systems
Attn: Kim Dean
65 River Road
Hudson, NH 03051-5228

SCIENCE APPLICATION INT'L CORP.
Attn: Laura Hyden
151 Lafayette Drive, Suite 301
P.O. Box 2501
Oak Ridge, TN 37830

ALION
Attn: Paul Hendryz
1000 Burr Ridge Parkway
Suite 202
Burr Ridge, IL 60527

LEIDOS
Attn: Kristin M. Grimes, Legal Dept.
11955 Freedom Drive, 16th Floor
Reston, VA 20190

PRECISION SCREW MACHINE
PRODUCTS, INC.
Attn: Joseph A. Moreshead
30 GOOCH STREET
P.O. BOX 1944
BIDDEFORD, ME 04005

ADVANCED GEOENVIRONMENTAL,
INC.
2300 KNOLL DR., UNIT L
VENTURA, CA 93003

HERAEUS PRECIOUS METALS
NORTH AMERICA
Attn: Ryan Hermann
24 UNION HILL ROAD
WEST CONSHOCKEN, PA 19428

MEL CHEMICALS
Attn: Patricia Jones
14271 Collection Center Drive
Chicago, IL 60693

CNC MACHINING, INC.
Attn: Greg Brous, President/CEO Admin.
510 S. Fairview Avenue
Goleta, CA 93117

KAYO DENSHI CO., LTD.
Attn: Ms. Chieko Murakami
5-19-13 Suneori-cho
Tsurugashima, Saitama 350-2211
Japan

VALUE BASED SOLUTIONS
Attn: Roland Ciaramitaro
1651 Crossings Parkway
Suites B & C
Westlake, OH 44145

ASTRO INDUSTRIES, INC.
Attn: A. Hinders
4403 DAYTON XENIA ROAD
BEAVERCREEK, OH 45432

CAL WEST ENVIRONMENTAL
Attn: Cathy Williams
2386 First Street
La Verne, CA 91750-5545

PHOENIX INTL HOLDINGS, INC.
Attn: O.Glover/Ken Pollock
9301 Largo Drive West
Largo, MD 20774

NRL & ASSOCIATES, INC.
Attn: Jeff Rumsey
245 Log Canoe Circle, Suite I
Stevensville, MD 21666

MI-TECH METALS, INC.
Attn: Kathi Slaughter
4701 Massachusetts Avenue
Indianapolis, IN 46218-3144

GRAINGER
Attn: SCD; Ref. #805196730
7300 North Melvina
Niles, IL 60714

MORGAN TECHNICAL CERAMICS
Attn: Kay Griffiths
Vauxhall Industrial Estate
Ruabon Wrexham LL14 6HY
United Kingdom

GLENAIR, INC.
Attn: Pam Ama-Hawkins
1211 Air Way
Glendale, CA 91201

MISSION UNIFORM SERVICE
Attn: William Slade
725 E. Montecito
Santa Barbara, CA 93102

Secured Creditors

Prepetition Secured Creditor/DIP Lender

Blue Wolf Capital Partners
Attn: President
One Liberty Plaza, 52nd Floor
New York, NY 10006

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Houston, TX 77040

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1603 Orrington Avenue, Suite 1005
Evanston, IL 60201

Gladstone Investment Corporation
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McLean, VA 22102

Wells Fargo Business Credit
Government Services Group
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Request for Special Notice

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