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U.S. DEPARTMENT OF LABOR  
EMPLOYEE BENEFITS SECURITY ADMINISTRATION

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July 31, 2006

**CERTIFIED MAIL - RETURN RECEIPT REQUESTED**

Top Hat Plan Exemption  
Employee Benefits Security Administration  
Room N-5644  
U. S. Department of Labor  
200 Constitution Avenue, N.W.  
Washington, D.C. 20210

Re: Edge Seal Technologies, Inc.  
7850 Northfield Road  
Walton Hills, Ohio 44146  
EIN: 34-1700849

Dear Sir or Madam:

Pursuant to Section 2520.104-23 of Title 29, Chapter XXV, Subchapter C, Part 2520, Subpart D of the Code of Federal Regulations, the above referenced employer, an Ohio corporation, hereby declares that it has in existence the following plan primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees:

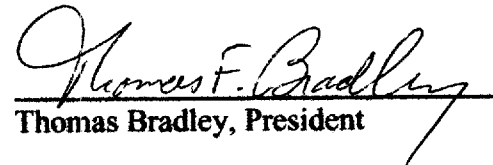
1. Edge Seal Technologies Executive Compensation Plan

The Edge Seal Technologies Executive Compensation Plan currently benefits eleven (11) employees of the employer. The plan was signed on July 31<sup>st</sup>, 2006.

Respectfully submitted,

EDGE SEAL TECHNOLOGIES, INC.

By:

  
Thomas Bradley, President

**EDGE SEAL TECHNOLOGIES EXECUTIVE COMPENSATION PLAN**

**1. PURPOSE; DEFINITIONS.**

The purpose of the Edge Seal Technologies Executive Compensation Plan (this "Plan") is to provide incentive compensation to key employees of Edge Seal Technologies, Inc. (the "Company"). This incentive compensation shall be based upon the award of Performance Units, the value of which is related to the appreciation in the Annual Value of the Company as hereinafter defined. This Plan is also intended to benefit the Company by creating incentives to participating key employees.

The following capitalized terms shall have the meanings set forth below as used in this Plan:

- a. "Annual Value" shall have the meaning set forth in Section 6(b).
- b. "Appreciation Amount" shall have the meaning set forth in Section 6(a).
- c. "Board" shall mean the Board of Directors of the Company.
- d. "Company" shall mean Edge Seal Technologies, Inc., an Ohio corporation.
- e. "Funded Debt" shall have the meaning set forth in Section 6(b)(ii).
- f. "Net Proceeds" shall mean the proceeds, net of expenses of sale and other liabilities associated with the sale of the stock or assets of the Company in a Sale. Net Proceeds shall include any consideration received in a connection with Sale, including cash, in-kind property or services and the relief of any indebtedness from the Company or any of its shareholders.
- g. "Participant" or "Plan Participant" shall mean an employee of the Company who has been selected to participate in this Plan.
- h. "Performance Units" shall have the meaning set forth in Section 3(a).
- i. "Plan" shall mean this Executive Compensation Plan.
- j. "Plan Year" shall mean a calendar year during which this Plan is in effect.
- k. "Sale" shall mean a change in the ownership or effective control of the Company, as defined in accordance with Internal Revenue Code § 409A and the Regulations and any other guidance published thereunder.

**2. ADMINISTRATION.**

This Plan shall be administered by the President of the Company, or such individual or entity as the President may designate (collectively, the "President") or the Company's Board of Directors (the "Board"). Subject to the provisions of this Plan, the President, after consulting with the Board, shall:

- a. Select the key employees of the Company to be awarded Performance Units;
- b. Determine the number of Performance Units to be awarded to each Participant;
- c. Determine the time or times when Performance Units will be awarded;
- d. Interpret this Plan;
- e. Adopt and revise rules and regulations governing this Plan;
- f. Determine whether awards of Performance Units are to be made or Performance Units are to be forfeited;
- g. Determine when Performance Units mature and how and when payments are to be made; and
- h. Make any other determinations that he or she believes necessary or advisable for the administration of this Plan.

### 3. AWARDS.

- a. Performance Units – A Performance Unit is a contract right related to the Annual Value of the Company. The maximum number of Performance Units that may be awarded under this Plan shall not exceed an aggregate of Twelve Thousand Six Hundred (12,600). Each Performance Unit shall have a value equal to two thousandths of one percent (.002%) of the increase in the Annual Value of the Company over a five-year period beginning upon the date of issuance of the Performance Unit. If any Performance Units awarded under this Plan shall be forfeited or canceled, such Performance Units may again be awarded under this Plan.
- b. Employees Eligible – Performance Units shall be awarded to such key employees of the Company as the President shall determine from time to time. Such employees are hereinafter referred to as “Participants.”
- c. Date of Award – All Performance Units awarded during the first six months of a Plan Year shall be deemed awarded on January 1st of the Plan Year in which the Participant receives notice of the award. Performance Units awarded during the last six months of a Plan Year shall be deemed awarded on January 1st of the subsequent Plan Year in which the Participant receives notice of the award.
- d. Notification of Award of Performance Units – Within sixty (60) days after the Company awards a Participant a Performance Unit, the Company shall send a written Executive Compensation Plan Award Agreement (the “Award Agreement”) to the Participant stating the number of Performance Units awarded, the Date of Award of the Performance Units, the Annual Value of the Company on the Date of Award, and any additional terms and conditions to which the

Participant is subject. Participant must agree to any terms contained in such Award Agreement to be eligible to participate in this Plan.

**4. PERFORMANCE UNIT ACCOUNT.**

Performance Units granted to a Participant shall be credited to a Performance Unit Account (the "Account") established and maintained for such participant by the Company. The Account of a Participant shall be the record of Performance Units granted to the Participants under this Plan shall be maintained solely for accounting purposes, and shall not require a segregation of any Company assets.

The Company shall annually provide each Participant with a statement setting forth the number of Performance Units in the Participant's Account, the Date(s) of Award of that Participant's Performance Units, the Annual Value of the Company on the Date of each such award, the Annual Value of the Company for the most recent Plan Year as calculated in accordance with Section 6 of this Plan, and the maturity date of the Performance Units (the "Account Statement"). An Account Statement shall be given to each Participant on or about March 31<sup>st</sup> of each year.

**5. VESTING OF PERFORMANCE UNITS.**

- a. Performance Units will vest to Participants over five (5) years (beginning January 1, 2007), at a rate of 20% per year until 100% of the Participant's Units are vested. Vesting occurs on the January 1<sup>st</sup> of each Plan Year, beginning on January 1, 2007 and every January 1<sup>st</sup> thereafter, on which the Participant is employed by the Company. Performance Units granted during the last six months of a Plan Year begin to vest on January 1<sup>st</sup> of the subsequent Plan Year and Performance Units granted in the first six months of a Plan Year begin to vest on January 1<sup>st</sup> of that Plan Year. Once the Performance Units are vested, the Participant remains vested in the Performance Units even if such Participant leaves the employment of the Company, subject to Section 7 of this Plan.
- b. Notwithstanding any other provision in this Plan, the Performance Units shall become 100% vested only for those Participants who are employed with the Company upon either of the following events (the "Termination Events"):
  - i. A Sale of the Company; or
  - ii. The Company terminates this Plan except pursuant to, or as part of, a plan to liquidate or dissolve the Company other than a Sale.

Upon a Termination Event described in Section 5(b)(i), the vested Performance Units shall be valued according to Section 6(c) of this Plan. Upon a Termination Event described in Section 5(b)(ii), the vested Performance Units shall be valued according to the Annual Value of the Company for the Plan Year preceding the Plan Year in which the Termination Event occurred.

- c. The Performance Units of a Participant shall cease to vest, and any unvested Performance Units shall be forfeited, upon the Participant's termination of employment with the Company for any reason.

**6. VALUATION OF PERFORMANCE UNITS.**

- a. The value of a Performance Unit upon vesting shall be two thousandths of one percent (.002%) of the increase in the Annual Value of the Company from the Date of Award to the end of the most recent Plan Year (hereinafter, the "Appreciation Amount").
- b. The Annual Value of the Company shall be calculated for each Plan Year as follows:
- i. The Company's EBITDA, as determined by the Company's independent public accountants, multiplied by 6 (EBITDA is hereby defined as the net income of the Company computed in accordance with accounting principles applied on a basis consistent with past practice, before interest, taxes, depreciation and amortization);
  - ii. Less the Company's Funded Debt. "Funded Debt" means any interest-bearing debt that is payable to a lender, including bonds, notes payable, debentures and loans owed to shareholders of the Company. Funded Debt does not include any trade payables of the Company.

For example, if for a given year the Company's EBITDA was \$5,000,000 and the Company had Funded Debt of \$4,000,000, the Annual Valuation of the Company for that year would be \$26,000,000 [ $\$5,000,000 \times 6$ ] - \$4,000,000]. The Annual Value for the year 2004 is \$20,603,000.

- c. If the Company's stock or assets are purchased in a Sale, the Annual Value of the Company for the Plan Year in which such Sale takes place shall be Net Proceeds realized from such Sale.

The Annual Value of the Company is not intended to, nor shall it be deemed to, equal the fair market value of the Company at any time or for any purpose. Instead, the Annual Value is simply a means to compare the Company's profitability and debt levels from time to time.

**7. PAYMENT FOR VESTED PERFORMANCE UNITS.**

- a. The Company shall redeem and pay out all vested Performance Units to all Participants within sixty (60) days of the receipt of the Net Proceeds from a Sale of the Company.
- b. Notwithstanding Section 7(a), if the Company or its assets are not sold in a Sale by January 1, 2012, the Company shall redeem and pay out vested Performance Units by paying the Appreciation Amount to the Participant(s) in twenty-four (24) equal, monthly installments, without interest, beginning on July 1, 2012. For the

purposes of this Section 7(b) only, in calculating the Annual Value of the Company for determining the Appreciation Amount, the number "6" in Section 6(b)(i) shall be replaced by the number "\_\_\_" and the Annual Value for the year of grant of any Performance Units redeemed under this Section 7(b) shall also be recalculated using the number "\_\_\_" in place of the number "6."

- c. If the Company terminates this Plan in an event described in Section 5(b)(ii), the Company shall pay the vested Performance Units in twenty-four (24) equal, monthly installments, without interest, beginning on July 1<sup>st</sup> of the year after the Plan Year in which the Performance Units became vested.
- d. If a Participant dies, payment of any amount due under this Plan shall be made to the Participant's duly appointed and qualified executor or other personal representative pursuant to (a) or (b) of this Section 7. The death of a Participant shall not accelerate any payment schedule set forth in this Plan.

#### **8. FORFEITURE OF VESTED PERFORMANCE UNITS.**

Notwithstanding any other provision of this Plan, all rights to payment for Performance Units shall terminate (and the Participant shall return to the Company any payments previously made) pursuant to this Plan, all of the Participant's Performance Units shall be forfeited, and the Company will have no further obligation hereunder to such Participant, if any of the following circumstances occur:

- a. Participant violates any provisions or covenants contained in his or her Award Agreement.
- b. The Participant improperly discloses proprietary or confidential information of the Company during Participant's employment with the Company or at any time following his or her termination of employment with the Company;
- c. The Company terminates the employment of a Participant due to misconduct that, in the sole discretion of the Company, materially adversely affects the operation or profitability of the Company;
- d. the Participant voluntarily terminates his or her employment, (other than a termination due to retirement at or after attaining age 65); or
- e. the Company is liquidated, dissolved or otherwise ceases to do business, except in conjunction with a Sale of the Company.

A Participant who leaves his or her employment with the Company for any reason other than those enumerated above retains his vested Performance Units but forfeits his or her unvested Performance Units.

**9. NON-TRANSFERABILITY.**

Performance Units granted under this Plan, and any rights and privileges pertaining thereto, may not be transferred, assigned, pledged or hypothecated in any manner, by operation of law or otherwise (except to a Participant's heirs in the event of death), and shall not be subject to execution, attachment or similar process.

**10. WITHHOLDING.**

The Company shall have the right to deduct from all amounts paid pursuant to this Plan any taxes required by law to be withheld.

**11. PARTICIPANTS' SHAREHOLDER RIGHTS.**

No Participant shall be entitled to any voting rights, to receive any dividends, or to any common-law rights of a shareholder or statutory rights of a shareholder as set forth in Ohio Revised Code § 1701.01 et seq.

**12. ARBITRATION.**

Any claim or dispute arising out of, or relating to, this Plan, including any controversy or claim relating to the awarding of Performance Units, the administration of this Plan, the valuation of Performance Units, payment for Performance Units, or forfeiture of Performance Units, shall be settled by arbitration administered in Cleveland, Ohio by the American Arbitration Association under its Commercial Rules of Arbitration; provided, however, nothing herein shall preclude the Company from seeking injunctive relief in any court of competent jurisdiction.

**13. MISCELLANEOUS PROVISIONS.**

- a. No employee of the Company or other person shall have any claim or right to be granted an award under the Plan. Neither the Plan nor any action taken hereunder shall be construed as giving any employee any right to be retained in the employ of the Company. PARTICIPANT ACKNOWLEDGES HE OR SHE IS AN AT-WILL EMPLOYEE OF THE COMPANY.
- b. This Plan shall at all times be entirely unfunded and no provision shall at any time be made with respect to segregating assets of the Company for payment of any benefits hereunder. No Participant or other person shall have any interest in any particular assets of the Company by reason of the right to receive a benefit under the Plan and any such Participant or other person shall have only the rights of a general unsecured creditor of the Company with respect to any rights under this Plan.
- c. Participant acknowledges the Company does not guarantee there will be an increase in the Annual Value of the Company. Participant acknowledges there may be a decrease in the Annual Value of the Company which would mean the Performance Units may have no value.

- d. Except when otherwise required by the context, any masculine terminology in this document shall include the feminine, and any singular terminology shall include the plural.
- e. This Plan reflects the entire agreement and understanding regarding the subject matter of the Plan and supercedes any prior document regarding the Plan and the compensation contemplated hereunder.

**14. AMENDMENT OF THE PLAN.**

The Company may terminate or amend this Plan from time to time without obtaining the approval of Participants. No termination or amendment to this Plan may alter, impair or reduce the number of Performance Units granted under this Plan prior to the effective date of such amendment without the written consent of any affected Participant.

**15. EFFECTIVE DATE OF PLAN.**

The effective date of this Plan shall be January 1, 2006.

[Edge Seal Technologies, Inc. Letterhead]

Date

Employee Name

Address

Dear \_\_\_\_\_:

Congratulations! You have been selected to be a participant in the Edge Seal Technologies Executive Compensation Plan (the "Plan"). You have earned the right to participation in the Plan by your hard work and dedication to the success of the company.

Participation in the Plan entitles you to share in the future appreciation in the value of Edge Seal. You are being granted a total of \_\_\_\_\_ Performance Units in the Plan. Each Performance Unit is worth .002% of the future appreciation in the value of Edge Seal. For the purposes of the Plan, the value of Edge Seal is determined by the formula set forth in the Plan. The Units become payable upon the sooner of a sale of Edge Seal (as defined in the Plan) or on January 1, 2012. A copy of the Plan is enclosed. Please read it carefully so that you understand its terms.

In order to become a participant in the Plan and receive your Performance Units, you must sign the enclosed Award Agreement. Also please read this carefully so that you understand its terms. If you have any questions, you are encouraged to have the Award Agreement and the Plan reviewed by an attorney.

Congratulations once again on being selected for participation in the Plan, and thank you for your contribution to the success of Edge Seal.

Sincerely,

---

President

**EDGE SEAL TECHNOLOGIES, INC.**  
**Executive Compensation Plan Award Agreement**

THIS EXECUTIVE COMPENSATION PLAN AWARD AGREEMENT (this "Agreement") is made as of the grant date set forth herein, by and between Edge Seal Technologies, Inc., an Ohio corporation ("Company"), and \_\_\_\_\_ ("Participant").

**RECITALS**

WHEREAS, subject to all terms and conditions set forth in the Edge Seal Technologies Executive Compensation Plan (the "Plan"), on the grant date set forth herein, Company grants to Participant an Award of Performance Units (initially capitalized terms used but not defined herein have the same meaning as defined in the Plan); and

WHEREAS, as required by Section 3(d) of the Plan, this Agreement evidences the Award and sets forth additional terms and conditions thereof.

**AWARD AGREEMENT**

NOW, THEREFORE, in consideration of the foregoing and the agreements made herein, and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. In addition to all terms and conditions set forth in the Plan, which by this reference are incorporated herein in their entirety, the Participant is awarded Performance under the following terms:

Grant Date: \_\_\_\_\_, 200\_

Performance Units awarded: \_\_\_\_\_

Annual Value: Pursuant to Section 6 of the Plan, the Annual Value of the Company as of the Grant Date is \$ \_\_\_\_\_. The Annual Value of the Company is not meant to be an estimation of the actual value of the Company.

2. By signing below, Participant acknowledges that he or she agrees to the terms and conditions of the Plan and this Agreement.

3. As a condition to this Award of Performance Units, Participant agrees to abide by the following covenants and restrictions:

- a. Non-Competition. During Participant's employment with Company and for a period of two (2) years thereafter, Participant shall not, directly or indirectly, either individually or as a principal, agent, executive, employer, stockholder, partner, or

in any individual or representative capacity whatsoever, for any reason, engage or invest in any form of a business that is competitive with the business conducted by Company at the time of the termination of Participant's employment with Company.

- b. Non-Solicitation. During Participant's employment with Company and for a period of two (2) years thereafter, Participant shall not: (i) solicit business from any person or entity who was a customer of Company at any time during the Participant's employment with Company; or (ii) induce, attempt to induce or assist others in inducing or attempting to induce any employee, agent, customer or supplier of Company or any other person or entity associated or doing business with Company (or proposing to become associated or to do business with Company) at the time of termination to terminate his or its relationship with Company (or to refrain from becoming associated or doing business with Company) or in any other manner to interfere with the relationship between Company and any such person or entity.
  
- c. Non-Disparagement. During Participant's employment with Company and at any time thereafter, Participant shall at all times refrain from taking any action or making any statements, in any form of communication or media, including, but not limited to, oral, written, electronic or digital forms, audio or visual communications or recordings, and printed materials that are intended to and do disparage the goodwill or reputation of the Company or any of its subsidiaries or affiliates or any directors or officers of any directors thereof that could adversely affect the morale of the Employees of the Company or any of its subsidiaries or affiliates.

Company and Participant expressly acknowledge and agree that any violation of the provisions of this Section 3 would cause immediate, serious and irreparable damage to Company, that it would be impossible to measure such damages in money and that money damages would not constitute an adequate remedy for any such breach. Therefore, in the event of a breach or a threatened breach of this Section 3, Company shall be entitled to injunctive relief, restraining and enjoining Participant from performing any acts prohibited by this Section 3 or otherwise prohibited by law, in addition to any other rights or remedies available to Company.

4. To the extent of any conflict between this Agreement and the provisions of the Plan, the Plan shall control. Participant acknowledges receipt of a copy of the Plan as in effect on the date hereof and represents that he is familiar with the provisions thereof and hereby accepts the Performance Units subject to the provisions of this Agreement and of the Plan, as the same may be amended from time to time. Participant further agrees to accept as final, conclusive and binding all decisions or interpretations of the Committee upon any questions arising under the Plan.

[signature page follows]

EDGE SEAL TECHNOLOGIES, INC.

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

PARTICIPANT

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Social Security No.)

\_\_\_\_\_  
(Street Address)

\_\_\_\_\_  
(City, State, and Zip Code)

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