

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

Filing Date: **2009-01-26** | Period of Report: **2009-01-26**
SEC Accession No. **0001144204-09-003413**

([HTML Version](#) on [secdatabase.com](#))

FILER

COMPOSITE TECHNOLOGY CORP

CIK: **317477** | IRS No.: **592025386** | State of Incorpor.: **NV** | Fiscal Year End: **0930**
Type: **8-K** | Act: **34** | File No.: **000-10999** | Film No.: **09545542**
SIC: **3600** Electronic & other electrical equipment (no computer equip)

Mailing Address
2026 MCGRAW AVE
IRVINE CA 92614

Business Address
2026 MCGRAW AVE
IRVINE CA 92614
(949) 428-8500

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of report (Date of earliest event reported): January 26, 2009 (January 20, 2009)

**COMPOSITE TECHNOLOGY CORPORATION
(Exact name of registrant as specified in Charter)**

**Nevada
(State or other jurisdiction of
incorporation or organization)**

**000-10999
(Commission File No.)**

**59-2025386
(IRS Employee Identification No.)**

**2026 McGaw Avenue
Irvine, California 92614
(Address of Principal Executive Offices)**

**(949) 428-8500
(Issuer Telephone number)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-
-
-

Forward Looking Statements

This Form 8-K and other reports filed by Registrant from time to time with the Securities and Exchange Commission (collectively the "Filings") contain or may contain forward looking statements and information that are based upon beliefs of, and information currently available to, Registrant's management as well as estimates and assumptions made by Registrant's management. When used in the filings the words "anticipate", "believe", "estimate", "expect", "future", "intend", "plan" or the negative of these terms and similar expressions as they relate to Registrant or Registrant's management identify forward looking statements. Such statements reflect the current view of Registrant with respect to future events and are subject to risks, uncertainties, assumptions and other factors (including the risks contained in the section of the Registrant's Form 10-K entitled "Risk Factors") relating to Registrant's industry, Registrant's operations and results of operations and any businesses that may be acquired by Registrant. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended or planned.

Although the Registrant believes that the expectations reflected in the forward looking statements are reasonable, the Registrant cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, the Registrant does not intend to update any of the forward-looking statements to conform these statements to actual results.

Item 1.01. Entry into a Material Definitive Agreement.

On January 20, 2009, the Registrant entered into a Letter Agreement with its newly appointed Director, Michael Lee ("Lee"). The Agreement provided for Lee's appointment as a member of the Board of Directors to last one year or until the annual general meeting at which new directors are selected and that the terms of the agreement would govern any extension and reelection as a Director for a period of up to two (2) additional terms for a total of up to three years. The Agreement provides for a monthly remuneration of up to \$5,000 and the granting of 500,000 options to purchase shares of the Registrant's common stock as further described below. The Agreements provides for the reimbursement of expenses and the benefit of the Registrant's liability insurance for Directors and Officers. The agreement provides for attendance of a minimum of four quarterly meetings per calendar year and one meeting held following the annual general meeting and the obligation to serve on Board Committees as required. The appointment of Lee as a Director may be terminated at any time for any or no reason by Lee or the Registrant upon written notice to the other in accordance with the Bylaws. The description of the Letter Agreement is qualified in its entirety by reference to the Letter Agreement attached hereto as Exhibit 10.1.

On January 20, 2009, the Board of Directors of the Registrant approved the execution of an Option Agreement between the Registrant with the following Director of the Registrant: Michael K. Lee, an independent director newly appointed. Pursuant to the Option Agreement Mr. Lee would be granted 500,000 options to acquire the Registrant's shares of common stock at an exercise price of \$0.35 per option. The options will vest over a period of 36 months with the first portion of 41,667 vesting 3 months after the grant date and thereafter an additional portion of 41,667 will vest at regular 3-monthly intervals until the vesting of the twelfth and final last portion of 41,663 on the 3-year anniversary of the grant date. The options would be granted under and governed by the terms and conditions of the 2008 Stock Option Plan (the "2008 Plan") and the Option Agreement. The options are neither transferable nor assignable by Optionee other than by will or by the laws of descent. The Registrant has not yet executed the Option Agreement but intends to do so in the next few days. The description of the Option Agreement is qualified in its entirety by reference to the Option Agreement attached hereto as Exhibit 10.2.

On January 20, 2009, the Registrant entered into a Confidential Information and Invention Assignment Agreement with Michael K. Lee ("Lee"), an independent director newly appointed as the Chairman of the Compensation Committee (the "Confidential Agreement"). Pursuant to the Confidential Agreements, Lee agreed not to directly or indirectly use, make available, sell, disclose or otherwise communicate to any third party any of the Registrant's Confidential Information. Further, Lee assigned, pursuant to the Confidential Agreement, to the Registrant all rights, title and interests in and to all of his Subject Ideas and Inventions including all registrable and patent rights. Lee also agreed that during his respective term of office as a Director of the Registrant and for one year after termination of each of their employment without the Registrant's express written consent directly or indirectly employ, they would not solicit for employment or recommend for employment by any party other than the Registrant, any person employed by the Registrant as an employee or a consultant and call or, solicit or take away, or attempt to call on, solicit or take away, any of the Registrant's customers or potential customers on whom Lee became acquainted during his term as Director with the Registrant. The description of the Confidential Information and Invention Assignment Agreement with Lee is qualified in its entirety by reference to the Confidential Information and Invention Assignment Agreements attached hereto as Exhibit 10.03

Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

(d) On January 20, 2009, the Board of Directors of the Registrant elected Michael K. Lee ("Lee") as a new member of the Board of Directors. Lee was appointed for a 1-year term subject to reelection by the Shareholders for 2 further terms of 1-year on the same terms and conditions. Lee was also appointed to the Audit Committee and the Compensation Committee with immediate effect. In remuneration for his services, Lee will receive \$4,000 per month during his term as a Director. He was also granted 500,000 options to purchase shares of common stock of the Registrant at a price of \$0.35 per option. These options will vest over 36 months with the first portion of 41,667 vesting 3 months after the grant date and thereafter an additional portion of 41,667 will vest at 3-monthly intervals until finally the last portion of 41,663 will vest on the 3-year anniversary of the grant.

There are no family relationships among the directors or executive officers.

There are no transactions, since the beginning of the Company's last fiscal year, or any currently proposed transaction, in which the Company was or is to be a participant and the amount involved exceeds the lesser of \$120,000 or one percent of the average of the Company's total assets at year-end for the last three completed fiscal years, and in which any related person had or will have a direct or indirect material interest.

Other than the director agreement described under Item 1.01 and ancillary arrangements mentioned thereunder, there is no material plan, contract or arrangement (whether or not written) to which Mr. Lee is a party or in which he participates that is entered into or material amendment in connection with the triggering event or any grant or award to Mr. Lee or modification thereto, under any such plan, contract or arrangement in connection with any such event.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

- 10.01 Letter Agreement between the Registrant and Michael K. Lee*
- 10.02 Option Agreement between the Registrant and Michael K. Lee
- 10.03 Confidential Information and Inventions Assignment Agreement between the Registrant and Michael K. Lee*

*Portions of the exhibit have been redacted and a confidential treatment request has been submitted to the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

Composite Technology Corporation

Date: January 26, 2009

By: /s/ Domonic J. Carney

Domonic J. Carney
Chief Financial Officer

Exhibit Index

Exhibit Number	Description
10.1	Letter Agreement with Michael K. Lee*
10.2	Option Agreement with Michael K. Lee
10.3	Confidential Information and Inventions Assignment Agreement with Michael K. Lee*

*Portions of the exhibit have been redacted and a confidential treatment request has been submitted to the Securities and Exchange Commission.



January 20, 2009

Michael K. Lee

Dear Michael:

Concerning: Letter Agreement

We are extremely pleased that you (herein referred to as the "Director") have agreed to accept our offer to join the Board of Directors of Composite Technology Corporation. We would very much like to have your commitment to become a member of our Board of Directors and assist us to the growth of our company.

This letter is intended to formalize the terms of your participation as a member of the Board of Directors of Composite Technology Corporation, a Nevada Corporation (the "Corporation").

The term of your role as a member of the Board of Directors for the Corporation will be one (1) year or until the annual general meeting at which new directors are selected. You agree that the terms set out in the present letter agreement will also govern any extension of such initial period by your reelection as a member of the Board of Directors at any future annual general meetings at which directors are selected on the same terms as those set out herein, for a period of up to two (2) additional terms (for a total of up to three (3) years).

As compensation for your good faith efforts to provide direction for the Corporation as well as promote the business interests of the Corporation, the Corporation will grant you a monthly payment of four thousand dollars (\$4,000), provided, that you are still participating as a Corporation Board Member as of each month end ("Remuneration").

We further are asking you to accept a position on the Compensation Committee, which will be compensated by an additional \$500 per month. We are also asking you to serve on the Audit Committee, which will be compensated by an additional \$500 per month. Should you be selected to serve as the Chairman of either committee, you would receive an additional \$500 per month.

In addition, the Corporation will grant you 500,000 options to purchase shares of the Corporation's common stock at a price of \$0.35 per share (the "Granted Options"). The Granted Options will vest in 12 equal portions (with any fraction vesting with the last to vest of such portions). The first portion of the Granted Options shall vest on that date three (3) months following the date of the initial Board grant and each successive portion shall thereafter vest at intervals of three (3) month.

You shall also be entitled, in accordance with the Corporation's applicable policies and rules in force, to reimbursement of reasonable expenses which are incurred (i) in traveling to meetings more than 1 hour away and (ii) in performing your responsibilities hereunder to the extent that incurring such expenses is pre-approved by the Corporation. The Corporation will also provide you with the benefit of liability insurance as a member of the Corporation's Board of Directors.

Since the legislation and practice governing the attitudes, roles and responsibilities of directors is evolving constantly, you are required to read and to understand the duties and obligations that are incumbent on members of the Board of Directors of the Corporation on an on-going basis to keep up to date.

****** This material has been omitted pursuant to a request for confidential treatment and filed separately with the Securities and Exchange Commission.**



2026 McGaw Ave., Irvine, CA, 92614 T (949) 428-8500 F (949) 428-8515



Your responsibilities as a member of the Board shall include but are not limited to:

Attend a minimum of four (4) quarterly meetings per calendar year and one (1) meeting held immediately following the annual general meeting. The Corporation shall give appropriate advance notice of the scheduling of the quarterly meetings; and

- Attend the Annual General Meeting of the Shareholders; and
- Be available for special meetings of the board by telephone for decisions which cannot wait until the quarterly board meetings; and
- Report in a timely fashion any and all matters required to be reported in accordance with applicable legislation including without limitation any dealing in the Corporation's shares; and
- Promote the interests of the Corporation through raising its profile, making introductions to generate new business opportunities; and
- Introduce potential full time executives and employees and strengthening the Board of Directors and investor base of the Corporation; and
- As requested by the Board of Directors, serve on designated subcommittees of the Board of Directors including the audit committee, compensation committee, corporate governance committee, etc.

In addition, the Corporation is required to take a number of routine and urgent decisions by written resolution in particular pursuant to Section 78.315 of the Nevada General Corporation Law. In this respect it is your responsibility to respond in timely fashion to requests to review, agree on an acceptable text and execute such resolutions.

In performing your services on the Board of Directors, you will be an independent contractor and not an employee of the Corporation. You will not be entitled to any additional compensation or participate in any benefit plans of the Corporation in connection with your services hereunder. You may not bind the Corporation or act as a principal or agent thereof.

You represent and agree that you are accepting the Remuneration for your own account and not with a view to or for sale in connection with any distribution thereof. You understand that such Remuneration will be subjected to the restrictions in the Corporation's Charter and Bylaws and will not be freely transferable and you represent that you either have a preexisting personal or business relationship with the Corporation or its Board of Directors or controlling persons or, by reason of your business or financial experience, have the capacity to protect your own interest in connection with receiving any Remuneration as compensation. You further represent that you were not solicited by publication of any advertisement in connection with the receipt of such Remuneration and that you have consulted tax counsel as needed regarding such Remuneration.

Notwithstanding anything to the contrary, your participation on the Corporation's Board of Directors may be terminated at any time for any or no reason by you or the Corporation upon written notice to the other party, provided, however that in the event of your seeking to terminate your directorship such resignation must be accepted by the Board of Directors in accordance with the terms of Section 3.12 of the Corporations Bylaws. Upon such termination, the right to compensation hereunder will terminate subject to the Corporation's obligation to reimburse you any approved expenses already incurred, and your right to retain the Granted Options to the extent such Options have vested prior to such termination or the compensation committee shall allow any accelerated vesting.

While serving as a director, you will acquire and have access to confidential or proprietary information about the Corporation, for as long as you are a director of the Corporation and for a period after you cease to be a Director you shall maintain the confidentiality of any and all such information in accordance with the terms of your "Proprietary Rights Agreement" signed concurrently herewith ("PAA"). The terms of the PAA are incorporated herein and form a part of your duties and obligations as a director.

2026 McGaw Ave., Irvine, CA, 92614 T (949) 428-8500 F (949) 428-8515

Execution of the signature block (which may be in counterparts) below shall indicate agreement to the terms outlined above. This letter is to be construed and enforced in accordance with the internal laws of the State of Nevada and contains the entire agreement of the parties with respect to the subject matter hereof. This letter may not be assigned by either party.

FOR: Composite Technology Corporation
(the Corporation)

FOR: Michael K. Lee
(the Director)

By: _____
Benton H Wilcoxon
Chairman and CEO

By: _____
Michael K. Lee
Representing himself personally

206 McGaw Ave., Irvine, CA, 92614 T (949) 428-8500 F (949) 428-8515

**Notice of Grant of Stock Options
and Option Agreement**

Composite Technology Corporation
2026 McGaw Avenue, Irvine, CA 92614

Name: Michael K. Lee
Address:

Option Number:
Optionee ID: _____

Effective, January 20, 2009 (the "Grant Date"), you have been granted a Non-Qualified Stock Option to purchase 500,000 shares of Composite Technology Corporation, a Nevada corporation (the "Corporation"), Common Stock at an exercise price of **\$0.35** per share ("Exercise Price"), exercisable upon vesting as set forth below (the "Option"):

Portion Vesting	Number of Months since vesting start date	% of Option Grant Vesting	Accumulated % of Option Grant vesting	Number of shares
1 st Portion	3	8.3 %	8.3 %	41,667
2 nd Portion	6	8.3 %	16.6 %	41,667
3 rd Portion	9	8.3 %	24.9 %	41,667
4 th Portion	12	8.3 %	33.2 %	41,667
5 th Portion	15	8.3 %	41.5 %	41,667
6 th Portion	18	8.3 %	49.8 %	41,667
7 th Portion	21	8.3 %	58.1 %	41,667
8 th Portion	24	8.3 %	66.4 %	41,667
9 th Portion	27	8.3 %	74.7 %	41,667
10 th Portion	30	8.3 %	83 %	41,667
11 th Portion	33	8.3 %	91.3 %	41,667
12 th Portion	36	8.7 %	100 %	41,663
XXXXXXXX	XX	XXX	XXX	XXXXXXXXXX

The Option Shares shall vest and become exercisable as set forth above. The exercising and vesting of the Option Shares are subject to the acceleration provisions set forth in the Corporation's Stock Option Agreement referred to below.

By your signature and the Corporation's signature below, you and the Corporation agree that this option is granted under and governed by the terms and conditions of the 2008 Stock Option Plan (the "2008 Plan") and Stock Option Agreement, all of which are attached hereto and made a part of this document.

If the spousal consent below is not signed, you represent and warrant that you are not married.

For: Composite Technology Corporation,
a Nevada corporation

By: Michael K. Lee

By:
Benton H Wilcoxon,
Chief Executive Officer

Date: January 20, 2009

Date: January __, 2009

By his or her signature below, the spouse of the Optionee acknowledges that he or she has read the Agreement and is familiar with the terms and provisions thereof, and agrees to be bound by all the terms and conditions of said Agreement.

Spouse: _____

_____ Date

Composite Technology Corporation 2008 Plan Option Agreement Version: 2009/1

COMPOSITE TECHNOLOGY CORPORATION.
STOCK OPTION AGREEMENT
(Immediately Exercisable)

Composite Technology Corporation. has granted to the individual (the "*Optionee*") named in the *Notice of Grant of Stock Option* (the "*Notice*") to which this Stock Option Agreement (the "*Option Agreement*") is attached an option (the "*Option*") to purchase certain shares of Stock upon the terms and conditions set forth in the Notice and this Option Agreement. The Option has been granted pursuant to and shall in all respects be subject to the terms and conditions of the Composite Technology Corporation. 2008 Stock Option Plan (the "*Plan*"), as amended to the Date of Option Grant, the provisions of which are incorporated herein by reference. By signing the Notice, the Optionee: (a) represents that the Optionee has read and is familiar with the terms and conditions of the Notice, the Plan and this Option Agreement, including the Effect of Termination of Service set forth in Section 7, the Unvested Share Repurchase Option set forth in Section 11 and the Right of First Refusal set forth in Section 12, (b) accepts the Option subject to all of the terms and conditions of the Notice, the Plan and this Option Agreement, (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions arising under the Notice, the Plan or this Option Agreement, and (d) acknowledges receipt of a copy of the Notice, the Plan and this Option Agreement.

1. *Definitions and Construction.*

1.1 *Definitions.* Unless otherwise defined herein, capitalized terms shall have the meanings assigned to such terms in the Notice or the Plan.

1.2 *Construction.* Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of this Option Agreement. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

2. *Tax Consequences.*

2.1 *Tax Status of Option.* This Option is intended to have the tax status designated in the Notice.

(a) *Incentive Stock Option.* If the Notice so designates, this Option is intended to be an Incentive Stock Option within the meaning of Section 422(b) of the Code, but the Company does not represent or warrant that this Option qualifies as such. The Optionee should consult with the Optionee's own tax advisor regarding the tax effects of this Option and the requirements necessary to obtain favorable income tax treatment under Section 422 of the Code, including, but not limited to, holding period requirements. (NOTE TO OPTIONEE: If the Option is exercised more than three (3) months after the date on which you cease to be an Employee in accordance with Section 7.1(c) of this Option Agreement (other than by reason of your death or permanent and total disability as defined in Section 22(e)(3) of the Code), the Option will be treated as a Nonstatutory Stock Option and not as an Incentive Stock Option to the extent required by Section 422 of the Code.)

(b) *Nonstatutory Stock Option.* If the Notice so designates, this Option is intended to be a Nonstatutory Stock Option and shall not be treated as an Incentive Stock Option within the meaning of Section 422(b) of the Code.

2.2 *ISO Fair Market Value Limitation.* If the Notice designates this Option as an Incentive Stock Option, then to the extent that the Option (together with all Incentive Stock Options granted to the Optionee under all stock option plans of the Participating Company Group, including the Plan) becomes exercisable for the first time during any calendar year for shares having a Fair Market Value greater than One Hundred Thousand Dollars (\$100,000), the portion of such options which exceeds such amount will be treated as Nonstatutory Stock Options. For purposes of this Section 2.2, options designated as Incentive Stock Options are taken into account in the order in which they were granted, and the Fair Market Value of stock is determined as of the time the option with respect to such stock is granted. If the Code is amended to provide for a different limitation from that set forth in this Section 2.2, such different limitation shall be deemed incorporated herein effective as of the date required or permitted by such amendment to the Code. If the Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section 2.2, the Optionee may designate which portion of such Option the Optionee is exercising. In the absence of such designation, the Optionee shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Separate certificates representing each such portion shall be issued upon the exercise of the Option. (NOTE TO OPTIONEE: If the aggregate Exercise Price of the Option (that is, the Exercise Price multiplied by the Number of Option Shares) plus the aggregate exercise price of any other Incentive Stock Options you hold (whether granted pursuant to the Plan or any other stock option plan of the Participating Company Group) is greater than \$100,000, you should contact the Chief Financial Officer of the Company to ascertain whether the entire Option qualifies as an Incentive Stock Option.)

2.3 *Election Under Section 83(b) of the Code.* If the Optionee exercises this Option to purchase shares of Stock that are both nontransferable and subject to a substantial risk of forfeiture, the Optionee understands that the Optionee should consult with the Optionee's tax advisor regarding the advisability of filing with the Internal Revenue Service an election under Section 83(b) of the Code, which must be filed no later than thirty (30) days after the date on which the Optionee exercises the Option. Shares acquired upon exercise of the Option are nontransferable and subject to a substantial risk of forfeiture if, for example, they are unvested and are subject to a right of the Company to repurchase such shares at the Optionee's original purchase price if the Optionee's Service terminates. Failure to file an election under Section 83(b), if appropriate, may result in adverse tax consequences to the Optionee. The Optionee acknowledges that the Optionee has been advised to consult with a tax advisor prior to the exercise of the Option regarding the tax consequences to the Optionee of the exercise of the Option. AN ELECTION UNDER SECTION 83(b) MUST BE FILED WITHIN 30 DAYS AFTER THE DATE ON WHICH THE OPTIONEE PURCHASES SHARES. THIS TIME PERIOD CANNOT BE EXTENDED. THE OPTIONEE ACKNOWLEDGES THAT TIMELY FILING OF A SECTION 83(b) ELECTION IS THE OPTIONEE'S SOLE RESPONSIBILITY, EVEN IF THE OPTIONEE REQUESTS THE COMPANY OR ITS REPRESENTATIVE TO FILE SUCH ELECTION ON HIS OR HER BEHALF.

3. *Administration.* All questions of interpretation concerning this Option Agreement shall be determined by the Board. All determinations by the Board shall be final and binding upon all persons having an interest in the Option. Any officer of a Participating Company shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the officer has apparent authority with respect to such matter, right, obligation, or election.

4. *Exercise of the Option.*

4.1 *Right to Exercise.* Except as otherwise provided herein, the Option shall be exercisable on and after the Initial Exercise Date and prior to the termination of the Option (as provided in Section 6) in an amount not to exceed the number of Option Shares less the number of shares previously acquired upon exercise of the Option, subject to the Company's repurchase rights set forth in Section 11 and Section 12. In no event shall the Option be exercisable for more shares than the Number of Option Shares.

4.2 *Method of Exercise.* Exercise of the Option shall be by written notice to the Company which must state the election to exercise the Option, the number of whole shares of Stock for which the Option is being exercised and such other representations and agreements as to the Optionee's investment intent with respect to such shares as may be required pursuant to the provisions of this Option Agreement. The written notice must be signed by the Optionee and must be delivered in person, by certified or registered mail, return receipt requested, by confirmed facsimile transmission, or by such other means as the Company may permit, to the Chief Financial Officer of the Company, or other authorized representative of the Participating Company Group, prior to the termination of the Option as set forth in Section 6, accompanied by full payment of the aggregate Exercise Price for the number of shares of Stock being purchased and (ii) an executed copy, if required herein of the then current form of escrow agreement reference below. The Option shall be deemed to be exercised upon receipt by the Company of such written notice, the aggregate Exercise Price, and, if required by the Company, such executed agreement.

4.3 *Payment of Exercise Price.*

(a) *Forms of Consideration Authorized.* Except as otherwise provided below, payment of the aggregate Exercise Price for the number of shares of Stock for which the Option is being exercised shall be made (i) in cash, by check, or cash equivalent, (ii) by tender to the Company, or attestation to the ownership, of whole shares of Stock owned by the Optionee having a Fair Market Value (as determined by the Company without regard to any restrictions on transferability applicable to such stock by reason of federal or state securities laws or agreements with an underwriter for the Company) not less than the aggregate Exercise Price, (iii) by means of a Cashless Exercise, as defined in Section 4.3(b), or (iv) by any combination of the foregoing.

(b) *Limitations on Forms of Consideration.*

(i) *Tender of Stock.* Notwithstanding the foregoing, the Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company's stock. The Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Optionee for more than six (6) months or were not acquired, directly or indirectly, from the Company.

(ii) *Cashless Exercise.* A "**Cashless Exercise**" means the delivery of a properly executed notice together with irrevocable instructions to a broker in a form acceptable to the Company providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares of Stock acquired upon the exercise of the Option pursuant to a program or procedure approved by the Company (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System). The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to decline to approve or terminate any such program or procedure.

4.4 *Tax Withholding.* At the time the Option is exercised, in whole or in part, or at any time thereafter as requested by the Company, the Optionee hereby authorizes withholding from payroll and any other amounts payable to the Optionee, and otherwise agrees to make adequate provision for (including by means of a Cashless Exercise to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Participating Company Group, if any, which arise in connection with the Option, including, without limitation, obligations arising upon (i) the exercise, in whole or in part, of the Option, (ii) the transfer, in whole or in part, of any shares acquired upon exercise of the Option, (iii) the operation of any law or regulation providing for the imputation of interest, or (iv) the lapsing of any restriction with respect to any shares acquired upon exercise of the Option. The Company shall have no obligation to deliver shares of Stock or to release shares of Stock from an escrow established pursuant to this Option Agreement until the tax withholding obligations of the Participating Company Group have been satisfied by the Optionee.

4.5 *Certificate Registration.* Except in the event the Exercise Price is paid by means of a Cashless Exercise, the certificate for the shares as to which the Option is exercised shall be registered in the name of the Optionee, or, if applicable, in the names of the heirs of the Optionee.

4.6 *Restrictions on Grant of the Option and Issuance of Shares.* The grant of the Option and the issuance of shares of Stock upon exercise of the Option shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. The Option may not be exercised if the issuance of shares of Stock upon exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, the Option may not be exercised unless (i) a registration statement under the Securities Act shall at the time of exercise of the Option be in effect with respect to the shares issuable upon exercise of the Option or (ii) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. **THE OPTIONEE IS CAUTIONED THAT THE OPTION MAY NOT BE EXERCISED UNLESS THE FOREGOING CONDITIONS ARE SATISFIED. ACCORDINGLY, THE OPTIONEE MAY NOT BE ABLE TO EXERCISE THE OPTION WHEN DESIRED EVEN THOUGH THE OPTION IS VESTED.** The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares subject to the Option shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of the Option, the Company may require the Optionee to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

4.7 *Fractional Shares.* The Company shall not be required to issue fractional shares upon the exercise of the Option.

5. *Nontransferability of the Option.* The Option may be exercised during the lifetime of the Optionee only by the Optionee or the Optionee's guardian or legal representative and may not be assigned or transferred in any manner except by will or by the laws of descent and distribution. Following the death of the Optionee, the Option, to the extent provided in Section 7, may be exercised by the Optionee's legal representative or by any person empowered to do so under the deceased Optionee's will or under the then applicable laws of descent and distribution.

6. *Termination of the Option.* The Option shall terminate and may no longer be exercised on the first to occur of (a) the Option Expiration Date, (b) the last date for exercising the Option following termination of the Optionee's Service as described in Section 7, or (c) a Change in Control to the extent provided in Section 8.

7. *Effect of Termination of Service.*

7.1 *Option Exercisability.*

(a) *Disability.* If the Optionee's Service with the Participating Company Group terminates because of the Disability of the Optionee, the Option, to the extent unexercised and exercisable on the date on which the Optionee's Service terminated, may be exercised by the Optionee (or the Optionee's guardian or legal representative) at any time prior to the expiration of twelve (12) months after the date on which the Optionee's Service terminated, but in any event no later than the Option Expiration Date.

(b) *Death.* If the Optionee's Service with the Participating Company Group terminates because of the death of the Optionee, the Option, to the extent unexercised and exercisable on the date on which the Optionee's Service terminated, may be exercised by the Optionee's legal representative or other person who acquired the right to exercise the Option by reason of the Optionee's death at any time prior to the expiration of twelve (12) months after the date on which the Optionee's Service terminated, but in any event no later than the Option Expiration Date. The Optionee's Service shall be deemed to have terminated on account of death if the Optionee dies within three (3) months after the Optionee's termination of Service.

(c) *Other Termination of Service.* If the Optionee's Service with the Participating Company Group terminates for any reason, except Disability or death, the Option, to the extent unexercised and exercisable by the Optionee on the date on which the Optionee's Service terminated, may be exercised by the Optionee at any time prior to the expiration of three (3) months (or such other longer period of time as determined by the Board, in its discretion) after the date on which the Optionee's Service terminated, but in any event no later than the Option Expiration Date.

7.2 *Additional Limitation on Option Exercise.* Notwithstanding the provisions of Section 7.1, the Option may not be exercised after the Optionee's termination of Service to the extent that the shares to be acquired upon exercise of the Option would be subject to the Unvested Share Repurchase Option as provided in Section 11.

7.3 *Extension if Exercise Prevented by Law.* Notwithstanding the foregoing, if the exercise of the Option within the applicable time periods set forth in Section 7.1 is prevented by the provisions of Section 4.6, the Option shall remain exercisable until three (3) months after the date the Optionee is notified by the Company that the Option is exercisable, but in any event no later than the Option Expiration Date.

7.4 *Extension if Optionee Subject to Section 16(b).* Notwithstanding the foregoing, if a sale within the applicable time periods set forth in Section 7.1 of shares acquired upon the exercise of the Option would subject the Optionee to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Optionee would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Optionee's termination of Service, or (iii) the Option Expiration Date.

7.5 *Certain Definitions.*

(a) "*Termination After Change in Control*" shall mean either of the following events occurring within twelve (12) months after a Change in Control:

(i) termination by the Participating Company Group of the Optionee's Service with the Participating Company Group for any reason other than for Cause (as defined below); or

(ii) the Optionee's resignation for Good Reason (as defined below) from all capacities in which the Optionee is then rendering Service to the Participating Company Group within a reasonable period of time following the event constituting Good Reason. Notwithstanding any provision herein to the contrary, Termination After Change in Control shall not include any termination of the Optionee's Service with the Participating Company Group which (1) is for Cause (as defined below); (2) is a result of the Optionee's death or disability; (3) is a result of the Optionee's voluntary termination of Service other than for Good Reason; or (4) occurs prior to the effectiveness of a Change in Control.

(b) "*Cause*" shall mean any of the following: (i) the Optionee's theft, dishonesty, or falsification of any Participating Company documents or records; (ii) the Optionee's improper use or disclosure of a Participating Company's confidential or proprietary information; (iii) any action by the Optionee which has a detrimental effect on a Participating Company's reputation or business; (iv) the Optionee's failure or inability to perform any reasonable assigned duties after written notice from a Participating Company of, and a reasonable opportunity to cure, such failure or inability; (v) any material breach by the Optionee of any employment agreement between the Optionee and a Participating Company, which breach is not cured pursuant to the terms of such agreement; or (vi) the Optionee's conviction (including any plea of guilty or nolo contendere) of any criminal act which impairs the Optionee's ability to perform his or her duties with a Participating Company.

(c) "*Good Reason*" shall mean any one or more of the following:

(i) without the Optionee's express written consent, the assignment to the Optionee of any duties, or any limitation of the Optionee's responsibilities, substantially inconsistent with the Optionee's positions, duties, responsibilities and status with the Participating Company Group immediately prior to the date of the Change in Control;

(ii) without the Optionee's express written consent, the relocation of the principal place of the Optionee's Service to a location that is more than fifty (50) miles from the Optionee's principal place of Service immediately prior to the date of the Change in Control, or the imposition of travel requirements substantially more demanding of the Optionee than such travel requirements existing immediately prior to the date of the Change in Control;

(iii) any failure by the Participating Company Group to pay, or any material reduction by the Participating Company Group of, (1) the Optionee's base salary in effect immediately prior to the date of the Change in Control (unless reductions comparable in amount and duration are concurrently made for all other employees of the Participating Company Group with responsibilities, organizational level and title comparable to the Optionee's), or (2) the Optionee's bonus compensation, if any, in effect immediately prior to the date of the Change in Control (subject to applicable performance requirements with respect to the actual amount of bonus compensation earned by the Optionee); or

(iv) any failure by the Participating Company Group to (1) continue to provide the Optionee with the opportunity to participate, on terms no less favorable than those in effect for the benefit of any employee or service provider group which customarily includes a person holding the employment or service provider position or a comparable position with the Participating Company Group then held by the Optionee, in any benefit or compensation plans and programs, including, but not limited to, the Participating Company Group's life, disability, health, dental, medical, savings, profit sharing, stock purchase and retirement plans, if any, in which the Optionee was participating immediately prior to the date of the Change in Control, or their equivalent, or (2) provide the Optionee with all other fringe benefits (or their equivalent) from time to time in effect for the benefit of any employee or service provider group which customarily includes a person holding the employment or service provider position or a comparable position with the Participating Company Group then held by the Optionee.

8. *Change in Control.*

8.1 *Definitions.*

(a) An "**Ownership Change Event**" shall be deemed to have occurred if any of the following occurs with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than thirty percent (30%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company; (iv) a liquidation or dissolution of the Company, or (v) the termination of employment of Benton H Wilcoxon.

(b) A "**Change in Control**" shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, a "**Transaction**") wherein the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than thirty percent (30%) of the total combined voting power of the outstanding voting stock of the Company or the corporation or corporations to which the assets of the Company were transferred (the "**Transferee Corporation(s)**"), as the case may be. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting stock of one or more corporations which, as a result of the Transaction, own the Company or the Transferee Corporation(s), as the case may be, either directly or through one or more subsidiary corporations. The Board shall have the right to determine whether multiple sales or exchanges of the voting stock of the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive.

8.2 *Effect of Change in Control on Option.*

(a) In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or other business entity or parent thereof, as the case may be (the "**Acquiring Corporation**"), may, without the consent of any Optionee, either

- i) assume the Company's rights and obligations under outstanding Options;
- ii) substitute for outstanding Options substantially equivalent options for the Acquiring Corporation's stock or pay consideration, in cash or a form and manner consistent with the consideration given in exchange for common shares of the Company and equal to the fair value of the outstanding Options (defined as the consideration given or closing market price of a share of common stock valued as of the date of the Change in Control, reduced by the exercise price of the option).
- iii)

(b) In the event the Acquiring Corporation elects not to assume or substitute for outstanding Options or pay the Optionee the fair value of the outstanding Options, as defined in section 8.2(a) in connection with a Change in Control, the exercisability and vesting of each such outstanding Option and any shares acquired upon the exercise thereof held by Optionees whose Service has not terminated prior to such date shall be accelerated, effective as of the date ten (10) days prior to the date of the Change in Control, to such extent, if any, as shall have been determined by the Committee, in its discretion, and set forth in the Option Agreement evidencing such Option. In such an event, the Optionee shall have twelve (12) months from the date of the Change in Control to exercise the Option and upon such exercise shall have the rights to any financial consideration given or provided to an equivalent share of Stock as of the date of the Change in Control.

(c) The exercise or vesting of any Option and any shares acquired upon the exercise thereof that was permissible solely by reason of this Section 8.2 and the provisions of such Option Agreement shall be conditioned upon the consummation of the Change in Control. Notwithstanding the foregoing, shares acquired upon exercise of an Option prior to the Change in Control and any consideration received pursuant to the Change in Control with respect to such shares shall continue to be subject to all applicable provisions of the Option Agreement evidencing such Option except as otherwise provided in such Option Agreement.

8.3 *Fair Market Value Limitation.* Should the exercisability of this Option be accelerated in connection with a Change in Control in accordance with Section 8.2, then to the extent that the aggregate Fair Market Value of the shares of Stock with respect to which the Optionee may exercise the Option for the first time during the calendar year of such acceleration, when added to the aggregate Fair Market Value of the shares subject to any other options designated as Incentive Stock Options granted to the Optionee under all stock option plans of the Participating Company Group prior to the Date of Option Grant with respect to which such options are exercisable for the first time during the same calendar year, exceeds One Hundred Thousand Dollars (\$100,000) (or such other limit, if any, imposed by Section 422 of the Code), the portion of the Option which exceeds such amount shall be treated as a Nonstatutory Stock Option. For purposes of the preceding sentence, options designated as Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of shares of stock shall be determined as of the time the option with respect to such shares is granted.

9. *Adjustments for Changes in Capital Structure.* In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification, or similar change in the capital structure of the Company, appropriate adjustments shall be made in the number, Exercise Price and class of shares of stock subject to the Option. If a majority of the shares which are of the same class as the shares that are subject to the Option are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event) shares of another corporation (the "**New Shares**"), the Board may unilaterally amend the Option to provide that the Option is exercisable for New Shares. In the event of any such amendment, the Number of Option Shares and the Exercise Price shall be adjusted in a fair and equitable manner, as determined by the Board, in its discretion. Notwithstanding the foregoing, any fractional share resulting from an adjustment pursuant to this Section 9 shall be rounded down to the nearest whole number, and in no event may the Exercise Price be decreased to an amount less than the par value, if any, of the stock subject to the Option. The adjustments determined by the Board pursuant to this Section 9 shall be final, binding and conclusive.

10. *Rights as a Stockholder, Employee or Consultant.* The Optionee shall have no rights as a stockholder with respect to any shares covered by the Option until the date of the issuance of a certificate for the shares for which the Option has been exercised (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such certificate is issued, except as provided in Section 9. If the Optionee is an Employee, the Optionee understands and acknowledges that, except as otherwise provided in a separate, written employment agreement between a Participating Company and the Optionee, the Optionee's employment is "at will" and is for no specified term. Nothing in this Option Agreement shall confer upon the Optionee any right to continue in the Service of a Participating Company or interfere in any way with any right of the Participating Company Group to terminate the Optionee's Service as an Employee or Consultant, as the case may be, at any time.

11. *Unvested Share Repurchase Option.*

11.1 *Grant of Unvested Share Repurchase Option.* In the event the Optionee's Service with the Participating Company Group is terminated for any reason or no reason, with or without cause, or, if the Optionee, the Optionee's legal representative, or other holder of shares acquired upon exercise of the Option attempts to sell, exchange, transfer, pledge, or otherwise dispose of (other than pursuant to an Ownership Change Event) any Unvested Shares, as defined in Section 11.2 below (the "**Unvested Shares**"), the Company shall have the right to repurchase the Unvested Shares under the terms and subject to the conditions set forth in this Section 11 (the "**Unvested Share Repurchase Option**").

11.2 *Unvested Shares Defined.* The "**Unvested Shares**" shall mean, on any given date, the number of shares of Stock acquired upon exercise of the Option which exceed the Vested Shares determined as of such date.

11.3 *Exercise of Unvested Share Repurchase Option.* The Company may exercise the Unvested Share Repurchase Option by written notice to the Optionee within sixty (60) days after (a) termination of the Optionee's Service (or exercise of the Option, if later) or (b) the Company has received notice of the attempted disposition of Unvested Shares. If the Company fails to give notice within such sixty (60) day period, the Unvested Share Repurchase Option shall terminate unless the Company and the Optionee have extended the time for the exercise of the Unvested Share Repurchase Option. The Unvested Share Repurchase Option must be exercised, if at all, for all of the Unvested Shares, except as the Company and the Optionee otherwise agree.

11.4 *Payment for Shares and Return of Shares to Company.* The purchase price per share being repurchased by the Company shall be an amount equal to the Optionee's original cost per share, as adjusted pursuant to Section 9 (the "**Repurchase Price**"). The Company shall pay the aggregate Repurchase Price to the Optionee in cash within thirty (30) days after the date of the written notice to the Optionee of the Company's exercise of the Unvested Share Repurchase Option. For purposes of the foregoing, cancellation of any purchase money indebtedness of the Optionee to any Participating Company for the shares shall be treated as payment to the Optionee in cash to the extent of the unpaid principal and any accrued interest canceled. The shares being repurchased shall be delivered to the Company by the Optionee at the same time as the delivery of the Repurchase Price to the Optionee.

11.5 *Assignment of Unvested Share Repurchase Option.* The Company shall have the right to assign the Unvested Share Repurchase Option at any time, whether or not such option is then exercisable, to one or more persons as may be selected by the Company.

11.6 *Ownership Change Event.* Upon the occurrence of an Ownership Change Event, any and all new, substituted or additional securities or other property to which the Optionee is entitled by reason of the Optionee's ownership of Unvested Shares shall be immediately subject to the Unvested Share Repurchase Option and included in the terms "Stock" and "Unvested Shares" for all purposes of the Unvested Share Repurchase Option with the same force and effect as the Unvested Shares immediately prior to the Ownership Change Event. While the aggregate Repurchase Price shall remain the same after such Ownership Change Event, the Repurchase Price per Unvested Share upon exercise of the Unvested Share Repurchase Option following such Ownership Change Event shall be adjusted as appropriate. For purposes of determining the Vested Shares following an Ownership Change Event, credited Service shall include all Service with any corporation which is a Participating Company at the time the Service is rendered, whether or not such corporation is a Participating Company both before and after the Ownership Change Event.

12. *Right of First Refusal.*

12.1 *Grant of Right of First Refusal.* Except as provided in Section 11.7 below, in the event the Optionee, the Optionee's legal representative, or other holder of shares acquired upon exercise of the Option proposes to sell, exchange, transfer, pledge, or otherwise dispose of any Vested Shares (the "**Transfer Shares**") to any person or entity, including, without limitation, any stockholder of a Participating Company, the Company shall have the right to repurchase the Transfer Shares under the terms and subject to the conditions set forth in this Section 12 (the "**Right of First Refusal**").

12.2 *Notice of Proposed Transfer.* Prior to any proposed transfer of the Transfer Shares, the Optionee shall deliver written notice (the "**Transfer Notice**") to the Company describing fully the proposed transfer, including the number of Transfer Shares, the name and address of the proposed transferee (the "**Proposed Transferee**") and, if the transfer is voluntary, the proposed transfer price, and containing such information necessary to show the bona fide nature of the proposed transfer. In the event of a bona fide gift or involuntary transfer, the proposed transfer price shall be deemed to be the Fair Market Value of the Transfer Shares, as determined by the Board in good faith. If the Optionee proposes to transfer any Transfer Shares to more than one Proposed Transferee, the Optionee shall provide a separate Transfer Notice for the proposed transfer to each Proposed Transferee. The Transfer Notice shall be signed by both the Optionee and the Proposed Transferee and must constitute a binding commitment of the Optionee and the Proposed Transferee for the transfer of the Transfer Shares to the Proposed Transferee subject only to the Right of First Refusal.

12.3 *Bona Fide Transfer.* If the Company determines that the information provided by the Optionee in the Transfer Notice is insufficient to establish the bona fide nature of a proposed voluntary transfer, the Company shall give the Optionee written notice of the Optionee's failure to comply with the procedure described in this Section 12, and the Optionee shall have no right to transfer the Transfer Shares without first complying with the procedure described in this Section 12. The Optionee shall not be permitted to transfer the Transfer Shares if the proposed transfer is not bona fide.

12.4 *Exercise of Right of First Refusal.* If the Company determines the proposed transfer to be bona fide, the Company shall have the right to purchase all, but not less than all, of the Transfer Shares (except as the Company and the Optionee otherwise agree) at the purchase price and on the terms set forth in the Transfer Notice by delivery to the Optionee of a notice of exercise of the Right of First Refusal within thirty (30) days after the date the Transfer Notice is delivered to the Company. The Company's exercise or failure to exercise the Right of First Refusal with respect to any proposed transfer described in a Transfer Notice shall not affect the Company's right to exercise the Right of First Refusal with respect to any proposed transfer described in any other Transfer Notice, whether or not such other Transfer Notice is issued by the Optionee or issued by a person other than the Optionee with respect to a proposed transfer to the same Proposed Transferee. If the Company exercises the Right of First Refusal, the Company and the Optionee shall thereupon consummate the sale of the Transfer Shares to the Company on the terms set forth in the Transfer Notice within sixty (60) days after the date the Transfer Notice is delivered to the Company (unless a longer period is offered by the Proposed Transferee); provided, however, that in the event the Transfer Notice provides for the payment for the Transfer Shares other than in cash, the Company shall have the option of paying for the Transfer Shares by the present value cash equivalent of the consideration described in the Transfer Notice as reasonably determined by the Company. For purposes of the foregoing, cancellation of any indebtedness of the Optionee to any Participating Company shall be treated as payment to the Optionee in cash to the extent of the unpaid principal and any accrued interest canceled.

12.5 *Failure to Exercise Right of First Refusal.* If the Company fails to exercise the Right of First Refusal in full (or to such lesser extent as the Company and the Optionee otherwise agree) within the period specified in Section 12.4 above, the Optionee may conclude a transfer to the Proposed Transferee of the Transfer Shares on the terms and conditions described in the Transfer Notice, provided such transfer occurs not later than ninety (90) days following delivery to the Company of the Transfer Notice. The Company shall have the right to demand further assurances from the Optionee and the Proposed Transferee (in a form satisfactory to the Company) that the transfer of the Transfer Shares was actually carried out on the terms and conditions described in the Transfer Notice. No Transfer Shares shall be transferred on the books of the Company until the Company has received such assurances, if so demanded, and has approved the proposed transfer as bona fide. Any proposed transfer on terms and conditions different from those described in the Transfer Notice, as well as any subsequent proposed transfer by the Optionee, shall again be subject to the Right of First Refusal and shall require compliance by the Optionee with the procedure described in this Section 12.

12.6 *Transferees of Transfer Shares.* All transferees of the Transfer Shares or any interest therein, other than the Company, shall be required as a condition of such transfer to agree in writing (in a form satisfactory to the Company) that such transferee shall receive and hold such Transfer Shares or interest therein subject to all of the terms and conditions of this Option Agreement, including this Section 12 providing for the Right of First Refusal with respect to any subsequent transfer. Any sale or transfer of any shares acquired upon exercise of the Option shall be void unless the provisions of this Section 12 are met.

12.7 *Transfers Not Subject to Right of First Refusal.* The Right of First Refusal shall not apply to any transfer or exchange of the shares acquired upon exercise of the Option if such transfer or exchange is in connection with an Ownership Change Event. If the consideration received pursuant to such transfer or exchange consists of stock of a Participating Company, such consideration shall remain subject to the Right of First Refusal unless the provisions of Section 12.9 below result in a termination of the Right of First Refusal.

12.8 *Assignment of Right of First Refusal.* The Company shall have the right to assign the Right of First Refusal at any time, whether or not there has been an attempted transfer, to one or more persons as may be selected by the Company.

12.9 *Early Termination of Right of First Refusal.* The other provisions of this Option Agreement notwithstanding, the Right of First Refusal shall terminate and be of no further force and effect upon (a) the occurrence of a Change in Control, unless the Acquiring Corporation assumes the Company's rights and obligations under the Option or substitutes a substantially equivalent option for the Acquiring Corporation's stock for the Option, or (b) the existence of a public market for the class of shares subject to the Right of First Refusal. A "**public market**" shall be deemed to exist if (i) such stock is listed on a national securities exchange (as that term is used in the Exchange Act) or (ii) such stock is traded on the over-the-counter market and prices therefor are published daily on business days in a recognized financial journal.

13. *Escrow.*

113.1 *Establishment of Escrow.* To ensure that shares subject to the Unvested Share Repurchase Option will be available for repurchase, the Company may require the Optionee to deposit the certificate evidencing the shares which the Optionee purchases upon exercise of the Option with an agent designated by the Company under the terms and conditions of an escrow agreement approved by the Company. If the Company does not require such deposit as a condition of exercise of the Option, the Company reserves the right at any time to require the Optionee to so deposit the certificate in escrow. Upon the occurrence of an Ownership Change Event or a change, as described in Section 9, in the character or amount of any of the outstanding stock of the corporation the stock of which is subject to the provisions of this Option Agreement, any and all new, substituted or additional securities or other property to which the Optionee is entitled by reason of the Optionee's ownership of shares of Stock acquired upon exercise of the

Option that remain, following such Ownership Change Event or change described in Section 9, subject to the Unvested Share Repurchase Option shall be immediately subject to the escrow to the same extent as such shares of Stock immediately before such event. The Company shall bear the expenses of the escrow.

13.2 *Delivery of Shares to Optionee.* As soon as practicable after the expiration of the Unvested Share Repurchase Option, but not more frequently than twice each calendar year, the escrow agent shall deliver to the Optionee the shares and any other property no longer subject to such restriction.

13.3 *Notices and Payments.* In the event the shares and any other property held in escrow are subject to the Company's exercise of the Unvested Share Repurchase Option or the Right of First Refusal, the notices required to be given to the Optionee shall be given to the escrow agent, and any payment required to be given to the Optionee shall be given to the escrow agent. Within thirty (30) days after payment by the Company, the escrow agent shall deliver the shares and any other property which the Company has purchased to the Company and shall deliver the payment received from the Company to the Optionee.

14. *Stock Distributions Subject to Option Agreement.* If, from time to time, there is any stock dividend, stock split or other change, as described in Section 9, in the character or amount of any of the outstanding stock of the corporation the stock of which is subject to the provisions of this Option Agreement, then in such event any and all new, substituted or additional securities to which the Optionee is entitled by reason of the Optionee's ownership of the shares acquired upon exercise of the Option shall be immediately subject to the Unvested Share Repurchase Option and the Right of First Refusal with the same force and effect as the shares subject to the Unvested Share Repurchase Option and the Right of First Refusal immediately before such event.

15. *Notice of Sales Upon Disqualifying Disposition.* The Optionee shall dispose of the shares acquired pursuant to the Option only in accordance with the provisions of this Option Agreement. In addition, *if the Notice designates this Option as an Incentive Stock Option*, the Optionee shall (a) promptly notify the Chief Financial Officer of the Company if the Optionee disposes of any of the shares acquired pursuant to the Option within one (1) year after the date the Optionee exercises all or part of the Option or within two (2) years after the Date of Option Grant and (b) provide the Company with a description of the circumstances of such disposition. Until such time as the Optionee disposes of such shares in a manner consistent with the provisions of this Option Agreement, unless otherwise expressly authorized by the Company, the Optionee shall hold all shares acquired pursuant to the Option in the Optionee's name (and not in the name of any nominee) for the one-year period immediately after the exercise of the Option and the two-year period immediately after Date of Option Grant. At any time during the one-year or two-year periods set forth above, the Company may place a legend on any certificate representing shares acquired pursuant to the Option requesting the transfer agent for the Company's stock to notify the Company of any such transfers. The obligation of the Optionee to notify the Company of any such transfer shall continue notwithstanding that a legend has been placed on the certificate pursuant to the preceding sentence.

16. *Legends.* The Company may at any time place legends referencing the Unvested Share Repurchase Option and the Right of First Refusal and any applicable federal, state or foreign securities law restrictions on all certificates representing shares of stock subject to the provisions of this Option Agreement. The Optionee shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to the Option in the possession of the Optionee in order to carry out the provisions of this Section. Unless otherwise specified by the Company, legends placed on such certificates may include, but shall not be limited to, the following:

16.1 "THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT COVERING SUCH SECURITIES, THE SALE IS MADE IN ACCORDANCE WITH RULE 144 OR RULE 701 UNDER THE ACT, OR THE COMPANY RECEIVES AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY, STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SUCH ACT."

16.2 "THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO AN UNVESTED SHARE REPURCHASE OPTION IN FAVOR OF THE CORPORATION OR ITS ASSIGNEE SET FORTH IN AN AGREEMENT BETWEEN THE CORPORATION AND THE REGISTERED HOLDER, OR SUCH HOLDER'S PREDECESSOR IN INTEREST, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THIS CORPORATION."

16.3 "THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A RIGHT OF FIRST REFUSAL OPTION IN FAVOR OF THE CORPORATION OR ITS ASSIGNEE SET FORTH IN AN AGREEMENT BETWEEN THE CORPORATION AND THE REGISTERED HOLDER, OR SUCH HOLDER'S PREDECESSOR IN INTEREST, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THIS CORPORATION."

16.4 "THE SHARES EVIDENCED BY THIS CERTIFICATE WERE ISSUED BY THE CORPORATION TO THE REGISTERED HOLDER UPON EXERCISE OF AN INCENTIVE STOCK OPTION AS DEFINED IN SECTION 422 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED ("ISO "). IN ORDER TO OBTAIN THE PREFERENTIAL TAX TREATMENT AFFORDED TO ISOs, THE SHARES SHOULD NOT BE TRANSFERRED PRIOR TO [*INSERT DISQUALIFYING DISPOSITION DATE HERE*]. SHOULD THE REGISTERED HOLDER ELECT TO TRANSFER ANY OF THE SHARES PRIOR TO THIS DATE AND FOREGO ISO TAX TREATMENT, THE TRANSFER AGENT FOR THE SHARES SHALL NOTIFY THE CORPORATION IMMEDIATELY. THE REGISTERED HOLDER SHALL HOLD ALL SHARES PURCHASED UNDER THE INCENTIVE STOCK OPTION IN THE REGISTERED HOLDER'S NAME (AND NOT IN THE NAME OF ANY NOMINEE) PRIOR TO THIS DATE OR UNTIL TRANSFERRED AS DESCRIBED ABOVE."

17. *Lock-Up Agreement.* The Optionee hereby agrees that in the event of any underwritten public offering of stock, including an initial public offering of stock, made by the Company pursuant to an effective registration statement filed under the Securities Act, the Optionee shall not offer, sell, contract to sell, pledge, hypothecate, grant any option to purchase or make any short sale of, or otherwise dispose of any shares of stock of the Company or any rights to acquire stock of the Company for such period of time from and after the effective date of such registration statement as may be established by the underwriter for such public offering; provided, however, that such period of time shall not exceed one hundred eighty (180) days from the effective date of the registration statement to be filed in connection with such public offering. The foregoing limitation shall not apply to shares registered in the public offering under the Securities Act.

18. *Restrictions on Transfer of Shares.* No shares acquired upon exercise of the Option may be sold, exchanged, transferred (including, without limitation, any transfer to a nominee or agent of the Optionee), assigned, pledged, hypothecated or otherwise disposed of, including by operation of law, in any manner which violates any of the provisions of this Option Agreement and, except pursuant to an Ownership Change Event, until the date on which such shares become Vested Shares, and any such attempted disposition shall be void. The Company shall not be required (a) to transfer on its books any shares which will have been transferred in violation of any of the provisions set forth in this Option Agreement or (b) to treat as owner of such shares or to accord the right to vote as such owner or to pay dividends to any transferee to whom such shares will have been so transferred.

19. *Miscellaneous Provisions.*

19.1 *Binding Effect.* Subject to the restrictions on transfer set forth herein, this Option Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, successors and assigns.

19.2 *Termination or Amendment.* The Board may terminate or amend the Plan or the Option at any time; provided, however, that except as provided in Section 8 in connection with a Change in Control, no such termination or amendment may adversely affect the Option or any unexercised portion hereof without the consent of the Optionee unless such termination or amendment is necessary to comply with any applicable law or government regulation or is required to enable the Option, if designated an Incentive Stock Option in the Notice, to qualify as an Incentive Stock Option. No amendment or addition to this Option Agreement shall be effective unless in writing.

19.3 *Notices.* Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Option Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail, with postage and fees prepaid, addressed to the other party at the address shown below that party's signature or at such other address as such party may designate in writing from time to time to the other party.

19.4 *Integrated Agreement.* The Notice, this Option Agreement and the Plan constitute the entire understanding and agreement of the Optionee and the Participating Company Group with respect to the subject matter contained herein or therein and supersedes any prior agreements, understandings, restrictions, representations, or warranties among the Optionee and the Participating Company Group with respect to such subject matter other than those as set forth or provided for herein or therein. To the extent contemplated herein or therein, the provisions of the Notice and the Option Agreement shall survive any exercise of the Option and shall remain in full force and effect.

19.5 *Applicable Law.* This Option Agreement shall be governed by the laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within the State of California.

19.6 *Counterparts.* The Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Incentive Stock Option

Optionee: _____

Nonstatutory Stock Option

Date: _____

**STOCK OPTION EXERCISE NOTICE
(IMMEDIATELY EXERCISABLE)**

Composite Technology Corporation.
Attention: Chief Financial Officer

Ladies and Gentlemen:

1. **Option .** I was granted an option (the "**Option**") to purchase shares of the common stock (the "**Shares**") of Composite Technology Corporation (the "**Company**") pursuant to the Company's 2008 Stock Option Plan (the "**Plan**"), my Notice of Grant of Stock Option (the "**Notice**") and my Stock Option Agreement (the "**Option Agreement**") as follows:

Grant Number: _____

Date of Option Grant: _____

Number of Option Shares: _____

Exercise Price per Share: \$ _____

2. **Exercise of Option .** I hereby elect to exercise the Option to purchase the following number of Shares:

Vested Shares: _____

Unvested Shares: _____

Total Shares Purchased: _____

Total Exercise Price (Total Shares × Price per Share) \$ _____

3. **Payments .** I enclose payment in full of the total exercise price for the Shares in the following form(s), as authorized by my Option Agreement:

TM Cash: \$ _____

TM Check: \$ _____

TM Tender of Company Stock: Contact Plan Administrator

4. **Tax Withholding** . I authorize payroll withholding and otherwise will make adequate provision for the federal, state, local and foreign tax withholding obligations of the Company, if any, in connection with the Option. If I am exercising a Nonstatutory Stock Option, I enclose payment in full of my withholding taxes, if any, as follows:

(Contact Plan Administrator for amount of tax due.)

Cash: \$ _____

Check: \$ _____

5. **Optionee Information** .

My address is: _____

My Social Security Number is: _____

6. **Notice of Disqualifying Disposition** . If the Option is an Incentive Stock Option, I agree that I will promptly notify the Chief Financial Officer of the Company if I transfer any of the Shares within one (1) year from the date I exercise all or part of the Option or within two (2) years of the Date of Option Grant.

7. **Binding Effect** . I agree that the Shares are being acquired in accordance with and subject to the terms, provisions and conditions of the Option Agreement, including the Unvested Share Repurchase Option and the Right of First Refusal set forth therein, to all of which I hereby expressly assent. This Agreement shall inure to the benefit of and be binding upon the my heirs, executors, administrators, successors and assigns. If required by the Company, I agree to deposit the certificate(s) evidencing the Shares, along with a blank stock assignment separate from certificate executed by me, with an escrow agent designated by the Company, to be held pursuant to the Company's standard Joint Escrow Instructions.

8. **Transfer** . I understand and acknowledge that the Shares have not been registered under the Securities Act of 1933, as amended (the "**Securities Act**"), and that consequently the Shares must be held indefinitely unless they are subsequently registered under the Securities Act, an exemption from such registration is available, or they are sold in accordance with Rule 144 or Rule 701 under the Securities Act. I further understand and acknowledge that the Company is under no obligation to register the Shares. I understand that the certificate or certificates evidencing the Shares will be imprinted with legends which prohibit the transfer of the Shares unless they are registered or such registration is not required in the opinion of legal counsel satisfactory to the Company.

I am aware that Rule 144 under the Securities Act, which permits limited public resale of securities acquired in a nonpublic offering, is not currently available with respect to the Shares and, in any event, is available only if certain conditions are satisfied. I understand that any sale of the Shares that might be made in reliance upon Rule 144 may only be made in limited amounts in accordance with the terms and conditions of such rule and that a copy of Rule 144 will be delivered to me upon request.

9. **Election Under Section 83(b) of the Code** . I understand and acknowledge that if I am exercising the Option to purchase Unvested Shares (i.e., shares that remain subject to the Company's Unvested Share Repurchase Option), that I should consult with my tax advisor regarding the advisability of filing with the Internal Revenue Service an election under Section 83(b) of the Code, which must be filed no later than thirty (30) days after the date on which I exercise the Option. I acknowledge that I have been advised to consult with a tax advisor prior to the exercise of the Option regarding the tax consequences to me of exercising the Option. AN ELECTION UNDER SECTION 83(b) MUST BE FILED WITHIN 30 DAYS AFTER THE DATE ON WHICH I PURCHASE SHARES. THIS TIME PERIOD CANNOT BE EXTENDED. I ACKNOWLEDGE THAT TIMELY FILING OF A SECTION 83(b) ELECTION IS MY SOLE RESPONSIBILITY, EVEN IF I REQUEST THE COMPANY OR ITS REPRESENTATIVES TO FILE SUCH ELECTION ON MY BEHALF.

I understand that I am purchasing the Shares pursuant to the terms of the Plan, the Notice and my Option Agreement, copies of which I have received and carefully read and understand.

Very truly yours,

(Signature)

Receipt of the above is hereby acknowledged.

Composite Technology Corporation.

By: _____

Title: _____

Dated: _____

CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT

This CONFIDENTIAL INFORMATION AND INVENTION ASSIGNMENT AGREEMENT (the "Agreement") is made between Composite Technology Corporation, a Nevada corporation (the "Company") and Michael K. Lee.

In consideration of my appointment as a director with the Company (which for purposes of this Agreement shall be deemed to include any subsidiaries or Affiliates of the Company and for purposes of this Agreement, "Affiliates" shall mean any person or entity that directly or indirectly controls, is controlled by or is under common control with the Company), the receipt of confidential information while associated with the Company, and other good and valuable consideration, I, the undersigned individual, agree that:

1. Term of Agreement. This Agreement shall continue in full force and effect for the duration of my membership as a director of the Company (the "Effective Period").

2. Confidentiality.

(a) Existence of Confidential Information. The Company is in the legal possession of and/or owns and will develop and/or acquire Proprietary Information, as defined below, which have value to its business. This Confidential Information includes not only information disclosed by the Company to me, but also information developed or learned by me during the course of my tenure as a Director with the Company.

(b) Definitions. "Proprietary Information" is all information in whatever form, tangible or intangible, pertaining in any manner to the business of the Company, or any of its Affiliates, or its employees, customers, consultants or business associates. All Proprietary Information not generally known outside of the Company's organization, and all Proprietary Information so known only through improper means, shall be deemed "Confidential Information." By example and without limiting the foregoing definition, Proprietary and Confidential Information shall include, but not be limited to:

- (i) Formulas, research and development techniques, processes, trade secrets, computer programs, software, electronic codes, mask works, inventions, innovations, patents, patent applications, discoveries, improvements, data, know-how, formats, test results and research projects;
- (ii) information about costs, profits, markets, sales, contracts and lists of customers and distributors;
- (iii) business, marketing and strategic plans;
- (iv) forecasts, unpublished financial information, budgets, projections and customer identities, characteristics and agreements; and
- (v) employee personnel files and compensation information.

Confidential Information is to be broadly defined, and includes all information that has or could have commercial value or other utility in the business in which the Company is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company, whether or not such information is identified as Confidential Information by the Company.

(c) Protection of Confidential Information. I will not, directly or indirectly, use, make available, sell, disclose or otherwise communicate to any third party, other than in my assigned duties and for the benefit of the Company, any of the Company's Confidential Information, either during or after my tenure as a Director with the Company.

(d) Delivery of Confidential Information. Upon request or when my directorship with the Company terminates, I will immediately deliver to the Company all copies of any and all materials and writings received from, created for or belonging to the Company including, but not limited to, those which relate to or contain Confidential Information.

(e) Location and Reproduction. I shall maintain at my work station and/or any other place under my control only such Confidential Information as I have a current "need to know." I shall return to the appropriate person or location or otherwise properly dispose of Confidential Information once that need to know no longer exists. I shall not make copies of or otherwise reproduce Confidential Information unless there is a legitimate business need of the Company for reproduction.

(f) Prior Actions and Knowledge. I represent and warrant that from the time of my first contact with the Company I held in strict confidence all Confidential Information and have not disclosed any Confidential Information, directly or indirectly, to anyone outside the Company, or used, copied, published or summarized any Confidential Information, except to the extent otherwise permitted in this Agreement.

(g) Third-Party Information. I acknowledge that the Company has received and in the future will receive from third parties the third party's confidential information subject to a duty on the Company's part to maintain the confidentiality of such information, and to use it only for certain limited purposes. I agree during the Effective Period and thereafter, I will hold all such confidential information in the strictest confidence and not disclose or use it, except as necessary to perform my obligations hereunder, and as is consistent with the Company's agreement with such third parties.

(h) Third Parties. I represent appointment and position as a Director with the Company does not and will not breach any agreements with or duties to any employer, former employer or any other third party. I will not disclose to the Company or use on its behalf any confidential information belonging to others and I will not bring onto the premises of the Company any confidential information belonging to any such party unless consented to in writing by such party.

3. Proprietary Rights, Inventions and New Ideas.

(a) Definition. The term "Subject Ideas" or "Inventions" includes any and all ideas, processes, trademarks, service marks, inventions, designs, technologies, computer hardware or software, original works of authorship, formulas, discoveries, patents, copyrights, copyrightable works, products, marketing and business ideas, and all improvements, know-how, data, rights and claims related to the foregoing, whether or not patentable, which are conceived, developed or created in whole or in part by me during the period I hold a Directorship with the Company and which: (i) relate to the Company's current or contemplated business or activities; (ii) relate to the Company's actual or demonstrably anticipated research or development; (iii) result from any work performed by me for the Company; (iv) involve the use of the Company's equipment, supplies, facilities or trade secrets; (v) result from or are suggested by any work done by the Company or at the Company's request, or any projects specifically assigned to me; or (vi) result from my access to any of the Company's memoranda, notes, records, drawings, sketches, models, maps, customer lists, research results, data, formulae, specifications, inventions, processes, equipment or other materials (collectively, "Company Materials").

(b) Company Ownership. I hereby assign all right, title and interest in and to all of my Subject Ideas and Inventions, including but not limited to all registrable and patent rights which may subsist therein, to the Company. All Subject Ideas and Inventions shall be considered works made for hire. I shall take all actions deemed necessary by the Company to protect the Company's rights therein.

(c) California Labor Code. Section 3(b) of this Agreement shall not apply if and to the extent California Labor Code Section 2870 lawfully prohibits the assignment of rights in such intellectual property. I acknowledge I understand the limits placed on this definition by California Labor Code Section 2870, if applicable to me, which provides:

“(1) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer’s equipment, supplies, facilities or trade secret information except for those inventions that either:

- a. Relate at the time of conception or reduction to practice of the invention to the employer’s business, or actual or demonstrably anticipated research or development of the employer; or
- b. Result from any work performed by the employee for the employer.

2) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.”

(d) I understand I bear the full burden of proving to the Company an Invention qualifies fully under Section 2870. I agree to disclose promptly to the Company in writing full details of any and all Subject Ideas and Inventions.

(e) Maintenance of Records. I agree to keep and maintain adequate and current written records of all Subject Ideas and Inventions and their development made by me (solely or jointly with others) during the term of appointment as a Director of the Company. These records will be in the form of notes, sketches, drawings and any other format that may be specified by the Company. These records will be available to and remain the sole property of the Company at all times.

(f) Access. Because of the difficulty of establishing when any Subject Ideas or Inventions are first conceived by me, or whether they result from my access to Confidential Information or Company Materials, I agree that any Subject Idea and Invention shall, among other circumstances, be deemed to have resulted from my access to Company Materials if: (i) it grew out of or resulted from my work with the Company or is related to the business of the Company, and (ii) it is made, used, sold, exploited or reduced to practice, or an application for patent, trademark, copyright or other proprietary protection is filed thereon, by me or with my significant aid, within one (1) year after termination of the Effective Period.

(g) Assistance. I further agree to assist the Company in every proper way (but at the Company’s expense) to obtain and from time to time enforce patents, copyrights or other rights or registrations on said Subject Ideas and Inventions in any and all countries, and to that end will execute all documents necessary:

(i) to apply for, obtain and vest in the name of the Company alone (unless the Company otherwise directs) letters patent, copyrights or other analogous protection in any country throughout the world and when so obtained or vested to renew and restore the same; and

(ii) to defend any opposition proceedings in respect of such applications and any opposition proceedings or petitions or applications for revocation of such letters patent, copyright or other analogous protection; and

(iii) to cooperate with the Company (but at the Company's expense) in any enforcement or infringement proceeding on such letters patent, copyright or other analogous protection.

(h) Authorization to Company. In the event the Company is unable, after reasonable effort, to secure my signature on any patent, copyright or other analogous protection relating to a Subject Idea and Invention, whether because of my physical or mental incapacity or for any other reason whatsoever, I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and attorney-in-fact, to act for and on my behalf and stead to execute and file any such application, applications or other documents and to do all other lawfully permitted acts to further the prosecution, issuance and enforcement of letters patent, copyright or other analogous rights or protections thereon with the same legal force and effect as if executed by me. My obligation to assist the Company in obtaining and enforcing patents and copyrights for Subject Ideas and Inventions in any and all countries shall continue beyond the termination of my relationship with the Company, but the Company shall compensate me at a reasonable rate after such termination for time actually spent by me at the Company's request on such assistance.

(i) Exhibit. I acknowledge that there are no currently existing ideas, processes, inventions, discoveries, marketing or business ideas or improvements which I desire to exclude from the operation of this Agreement except for the list set forth on Exhibit A, Prior Knowledge and Inventions, to this Agreement. To the best of my knowledge, there is no other contract to assign inventions, trademarks, copyrights, ideas, processes, discoveries or other intellectual property that is now in existence between me and any other person (including any business or governmental entity).

(j) No Use of Name. I shall not at any time use the Company's name or any of the Company trademark(s) or trade name(s) in any advertising or publicity without the prior written consent of the Company.

4. Prohibited Activity. To prevent the above-described disclosure, misappropriation and breach, I agree that during the Effective Period and for a period of one (1) year after termination of the Effective Period, without the Company's express written consent, I shall not, directly or indirectly, (i) employ, solicit for employment or recommend for employment by any party other than the Company, any person employed by the Company (or any Affiliate) as an employee or a consultant; and (ii) call on, solicit or take away, or attempt to call on, solicit or take away, any of the Company's customers or potential customers on whom I called or with whom I became acquainted during my Effective Period.

5. Representations and Warranties. I represent and warrant (i) I have no obligations, legal or otherwise, inconsistent with the terms of this Agreement or with my undertaking a relationship with the Company; (ii) the performance of the services called for by this Agreement do not and will not violate any applicable law, rule or regulation or any proprietary or other right of any third party; (iii) I will not use in the performance of my responsibilities for the Company any materials or documents of any employer or former employer; and (iv) I have not entered into or will enter into any agreement (whether oral or written) in conflict with this Agreement.

6. Termination Obligations.

(a) Upon the termination of my relationship with the Company or promptly upon the Company's request, I shall surrender to the Company all equipment, tangible Proprietary Information, documents, books, notebooks, records, reports, notes, memoranda, drawings, sketches, models, maps, contracts, lists, computer disks (and other computer-generated files and data), any other data and records of any kind, and copies thereof (collectively, "Company Records"), created on any medium and furnished to, obtained by or prepared by myself in the course of or incident to my term as a Director, that are in my possession or under my control.

(b) My representations, warranties and obligations contained in this Agreement shall survive the termination of the Effective Period.

(c) Following any termination of the Effective Period, I will fully cooperate with the Company in all matters relating to my continuing obligations under this Agreement.

(d) In the event that I leave the position as a Director of the Company I hereby grant consent to notification by the Company to any new employer about my rights and obligations under this Agreement.

7. Injunctive Relief. I acknowledge my failure to carry out any obligation under this Agreement, or a breach by me of any provision herein, will constitute immediate and irreparable damage to the Company, which cannot be fully and adequately compensated in money damages and which will warrant preliminary and other injunctive relief, an order for specific performance and other equitable relief. I further agree no bond or other security shall be required in obtaining such equitable relief and I hereby consent to the issuance of such injunction and to the ordering of specific performance. I also understand other action may be taken and remedies enforced against me.

8. Modification. No modification of this Agreement shall be valid unless made in writing and signed by both parties.

9. Binding Effect. This Agreement shall be binding upon me, my heirs, executors, assigns and administrators and is for the benefit of the Company and its successors and assigns.

10. Governing Law. Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement may be brought against any of the Parties only in the courts of Orange County, in the State of California, or, if it has or can acquire jurisdiction, in the appropriate United States District Court for the Southern District of California, and each of the Parties consents to such venue and to the jurisdiction of such courts (and of the appropriate appellate courts) in any such action or proceeding and waives any objection to venue laid therein. Process in any action or proceeding referred to in the preceding sentence may be served on any Party anywhere in the world.

11. Integration. This Agreement sets forth the parties' mutual rights and obligations with respect to proprietary information, prohibited competition after the Effective Period and intellectual property. It is intended to be the final, complete and exclusive statement of the terms of the parties' agreements regarding these subjects. This Agreement supersedes all other prior and contemporaneous agreements and statements on these subjects, and it may not be contradicted by evidence of any prior or contemporaneous statements or agreements. To the extent that the practices, policies or procedures of the Company, now or in the future, apply to myself and are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control unless changed in writing by the Company.

12. Employment at Will. This Agreement is not an employment agreement. I understand that the Company may terminate my Directorship or association with it at any time, with or without cause, subject to the terms of any separate written agreement approved by the Board of Directors and executed by a duly authorized officer of the Company.

13. Construction. This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. By way of example and not limitation, this Agreement shall not be construed against the party responsible for any language in this Agreement. The headings of the paragraphs hereof are inserted for convenience only, and do not constitute part of and shall not be used to interpret this Agreement.

14. Attorneys' Fees. Should either I or the Company, or any heir, personal representative, successor or permitted assign of either party, resort to legal proceedings to enforce this Agreement, the prevailing party (as defined in California statutory law) in such legal proceeding shall be awarded, in addition to such other relief as may be granted, attorneys' fees and costs incurred in connection with such proceeding.

15. Severability. If any term, provision, covenant or condition of this Agreement, or the application thereof to any person, place or circumstance, shall be held to be invalid, unenforceable or void, the remainder of this Agreement and such term, provision, covenant or condition as applied to other persons, places and circumstances shall remain in full force and effect.

16. Rights Cumulative. The rights and remedies provided by this Agreement are cumulative, and the exercise of any right or remedy by either the Company or me (or by that party's successor), whether pursuant hereto, to any other agreement, or to law, shall not preclude or waive that party's right to exercise any or all other rights and remedies. This Agreement will inure to the benefit of the Company and its successors and assigns.

17. Nonwaiver. The failure of either the Company or me, whether purposeful or otherwise, to exercise in any instance any right, power or privilege under this Agreement or under law shall not constitute a waiver of any other right, power or privilege, nor of the same right, power or privilege in any other instance. Any waiver by the Company or by me must be in writing and signed by either myself, if I am seeking to waive any of my rights under this Agreement, or by an officer of the Company (other than me) or some other person duly authorized by the Company.

18. Notices. Any notice, request, consent or approval required or permitted to be given under this Agreement or pursuant to law shall be sufficient if it is in writing, and if and when it is hand delivered or sent by regular mail, with postage prepaid, to my residence (as noted in the Company's records), or to the Company's principal office, as the case may be.

19. Date of Effectiveness. This Agreement shall be deemed effective as of the date of my nomination to the Board of Directors of the Company.

20. Agreement to Perform Necessary Acts. I agree to perform any further acts and execute and deliver any documents that may be reasonably necessary to carry out the provisions of this Agreement.

21. Assignment. This Agreement may not be assigned without the Company's prior written consent.

22. Compliance with Law. I agree to abide by all federal, state and local laws, ordinances and regulations.

23. Survival. Section 2 (b), (c) (d), Section 3 (g), (h) (j), and Sections 4, 7, 10, 14 and 20 shall survive the expiration or termination of this Agreement.

24. Acknowledgment. I acknowledge that I have had the opportunity to consult legal counsel in regard to this Agreement, that I have read and understand this Agreement, that I am fully aware of its legal effect, and that I have entered into it freely and voluntarily and based on my own judgment and not on any representations or promises other than those contained in this Agreement.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date set forth below.

Dated: January 20, 2009

Michael K. Lee

Michael K. Lee

Composite Technology Corporation

a Nevada corporation

By: _____

Name: Benton H Wilcoxon

Title: CEO

**** This material has been omitted pursuant to a request for confidential treatment and filed separately with the Securities and Exchange Commission.

EXHIBIT A

PRIOR KNOWLEDGE AND INVENTIONS

1. Except as set forth below, I acknowledge that certain inventions which I may conceive or first actually reduce to practice after I am appointed a Director of the Company shall be the sole property of the Company. The following are those inventions that I own at this time (if none, so state):

2. Except as set forth below, I acknowledge that I have no other current or prior agreements, relationships or commitments that conflict with my relationship with the Company under my Confidential Information and Invention Assignment Agreement (if none, so state):

3. I acknowledge and agree that I will not use any proprietary information or trade secrets belonging to other persons or entities, including former employers, in my work for the Company. I further certify that I returned all property and confidential information belonging to all prior employers.

Dated: January 9, 2006

D. Dean McCormick III
9891 Irvine Center Drive, Suite 100,
Irvine 92618