

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

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FILER

**ECOLOGY COATINGS, INC.**

CIK: **1173313** | IRS No.: **260014658** | State of Incorporation: **NV** | Fiscal Year End: **0930**  
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SIC: **5084** Industrial machinery & equipment

Mailing Address

35980 WOODWARD AVENUE  
SUITE 200  
BLOOMFIELD HILLS MI 48304

Business Address

35980 WOODWARD AVENUE  
SUITE 200  
BLOOMFIELD HILLS MI 48304  
2487366200



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UNITED STATES 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)**  
**August 26, 2008**

**ECOLOGY COATINGS, INC.**

(Exact name of registrant as specified in its charter)

Neveda

(State or other jurisdiction  
incorporation)

333-91436

(Commission File Number)

26-0014658

(IRS Employer of  
Identification No.)

**35980 Woodward Avenue, Suite 200**  
**Bloomfield Hills, MI 48304**

(Address of principal executive offices, including zip code)

Registrant' s telephone number, including area code

(Former Name or Former Address, if Changed Since Last Report.)

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 (see General Instruction A.2. below):

- 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))

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**Item 1.01. Entry into a Material Definitive Agreement.***Commitment Letter and Securities Purchase Agreement*

On August 27, 2008 and on August 28, 2008, respectively, Ecology Coatings, Inc. (the “Company”), and Equity 11, Ltd., a Michigan corporation (the “Purchaser”), entered into a Commitment Letter (“Commitment Letter”) and a Securities Purchase Agreement (the “Securities Purchase Agreement”) for the issuance and sale of up to \$5,000,000 aggregate principal amount of 5.0% Cumulative Convertible Preferred Shares of the Company (the “Convertible Preferred Shares”) at a purchase price of \$1,000 per share and the issuance of warrants to purchase up to 2,500,000 shares of the Common Stock of the Company at an exercise price of \$.50 per share, which number and exercise price is subject to adjustment upon the occurrence of certain events such as reclassifications, mergers and stock splits.

The closing of the sale of the Convertible Preferred Shares and the issuance of the Warrants (the “Closing”) occurred on August 28, 2008 and Purchaser acquired 1,260 Convertible Preferred Shares and Warrants to purchase 630,000 shares for an aggregate purchase price of \$1,260,000. Purchaser has the right to purchase 3,740 additional Convertible Preferred Shares by the dates and for not less than the amounts as shown below:

<u>Days from Initial Closing</u>	<u>Number of Shares</u>	<u>Aggregate Purchase Price</u>
30	750	\$750,000
60	750	\$750,000
180	1500	\$1,500,000
240	740	\$740,000

In addition, the Purchaser has the right to acquire additional Warrants upon its purchase of additional Convertible Preferred Shares as follows:

<u>Warrant #</u>	<u>Shares to be Purchased</u>	<u>Effective Date</u>
W-1	630,000	August 28, 2008 (issued at closing)
W-2	375,000	Upon Purchaser’s acquisition of an additional 750 Convertible Preferred Shares in an aggregate amount of \$750,000
W-3	375,000	Upon Purchaser’s acquisition of an additional 750 Convertible Preferred Shares in an aggregate amount of \$750,000
W-4	750,000	Upon Purchaser’s acquisition of an additional 1500 Convertible Preferred Shares in an aggregate amount of \$1,500,000
W-5	370,000	Upon Purchaser’s acquisition of an additional 740 Convertible Preferred Shares in an aggregate amount of \$740,000

The Convertible Preferred Shares have a liquidation preference of \$1,000 per share. Purchaser may convert the Convertible Preferred Shares into common stock of the Company at a conversion price of \$.50 per share. On or after August 25, 2009, the Company may require the Purchaser to convert up to 100% of its shares of Convertible Preferred Shares if the volume-weighted average price of the Company’s common stock price exceeds \$3.00 per share for a continuous 30-day period. The Convertible Preferred Shares will pay cumulative cash dividends at a rate of 5% per annum, subject to declaration by the Company’s Board of Directors (the “Board”). On or after August 25, 2013 the Company may redeem the Convertible Preferred Shares. On or after August 25, 2015 the Purchaser may redeem the Convertible Preferred Shares.

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The Company will file for a registration of its common stock with the SEC on or before March 11, 2009 and has granted Purchaser “piggyback” registration rights for common stock it holds as part of that filing.

As long as Purchaser owns Convertible Preferred Shares, the Company may not accept a financing proposal from another party unless Purchaser is provided the opportunity to provide financing under the same terms.

The number of Board members of Company shall be increased to five and Purchaser shall have the right to elect three members to the Board. If the number of the number is increased beyond five members, the number of Board members elected by Purchaser shall increase to allow Purchaser to elect the majority of Board members. So long as Purchaser retains at least 1,260 of the Convertible Preferred Shares, the Company shall have the right to appoint the Company’s Chief Executive Officer.

The Company has agreed to modify its Employment Agreements with its executives so that the Securities Purchase Agreement is not a change in control event. The Company agreed to amend the Employment Agreement of Kevin Stolz to reduce his annual base salary to \$70,000 until the Company executes a new agreement with a customer that results at least \$100,000 of annual revenue. Additional information pertaining to the modifications of Employment Agreements with Company executives is contained in Items 1.01 and 9.1 of this Current Report and is incorporated herein by reference.

The Company has agreed to engage Sales Attack LLC to provide marketing and sales services to the Company.

A copy of the Commitment Letter is filed herewith as Exhibit 10.42 and a copy of the Securities Purchase Agreement is filed herewith as Exhibit 10.43. The summary of the terms and conditions of the Commitment Letter and the Securities Purchase Agreement in this Item 1.01 is qualified in its entirety by the terms of the Securities Purchase Agreement.

### *Employment Agreements*

On August 27, 2008, the Company entered into a First Amendment to the Employment Agreement of Richard D. Stromback to exclude the Equity 11, Ltd. transaction from the definition of “change in control” under the Agreement.

On August 27, 2008, the Company entered into a Second Amendment to the Employment Agreement of David W. Morgan to exclude the Equity 11, Ltd. transaction from the definition of “change in control” under the Agreement.

On August 27, 2008, the Company entered into a Second Amendment to the Employment Agreement of F. Thomas Krotine to exclude the Equity 11, Ltd. transaction from the definition of “change in control” under the Agreement.

On August 29, 2008, the Company entered into a First Amendment to the Employment Agreement of Kevin P. Stolz to exclude the Equity 11, Ltd. transaction from the definition of “change in control” under the Agreement and to reduce Mr. Stolz’s annual base compensation to \$70,000 until the Company executes an agreement with a customer that generates annual income of at least \$100,000.

Additional information pertaining to the Equity 11 transaction is contained in Items 1.01, 3.02, 3.03 and 10.1 of this Current Report and is incorporated herein by reference.

**Item 3.02 Unregistered Sales of Equity Securities.**

On August 27, 2008 and August 28, 2008, respectively the Company and the Purchaser entered into a Commitment Letter and the Securities Purchase Agreement for the issuance and sale of up to \$5,000,000 aggregate principal amount of the Convertible Preferred Shares at a purchase price of \$1,000 per share and for the issuance of Warrants to purchase up to 2,500,000 shares of Common Stock at an exercise price of \$.50 per share.

The Closing occurred on January 28, 2008. The Convertible Preferred Shares have a liquidation preference of \$1,000 per share and a conversion price of \$.50 per share. The Convertible Preferred Shares will pay cumulative cash distributions initially at a rate of 5% per annum, subject to declaration by the Board.

The Company offered and sold the Convertible Preferred Shares and issued the Warrants to purchase up to 630,000 shares of Common Stock to the Purchaser in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act.

The Convertible Preferred Shares and the underlying Common Shares issuable upon conversion of the Convertible Preferred Shares and the Warrants have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. This Current Report does not constitute an offer to sell, or a solicitation of an offer to buy, any security and shall not constitute an offer, solicitation or sale in any jurisdiction in which such offering would be unlawful.

Additional information pertaining to the Convertible Preferred Shares, the Warrants and the Closing is contained in Items 1.01, 3.02, 3.03 and 10.1 of this Current Report and is incorporated herein by reference.

**Item 3.03. Material Modification to Rights of Security Holders**

Pursuant to the terms of the Commitment Letter and the Securities Purchase Agreement, the number of the Company's Board members shall be increased to five and Equity 11 ("Purchaser") shall have the right to elect three members to the Board. Purchaser will effectively control the Board. If the number of the number of Board members is increased beyond five members, the number of Board members elected by Purchaser shall increase to allow Purchaser to elect the majority of Board members. So long as Purchaser retains at least 1,260 of the Convertible Preferred Shares, the Company shall have the right to appoint the Company's Chief Executive Officer.

Additional information pertaining to the Equity 11 transaction is contained in Items 1.01, 3.02 and 10.1 of this Current Report and is incorporated herein by reference.

**Item 5.01 Changes in Control of Registrant.**

Pursuant to the terms of the Commitment Letter and the Securities Purchase Agreement, the number of the Company's Board members shall be increased to five and Equity 11 ("Purchaser") shall have the right to elect three members to the Board. Purchaser will effectively control the Board. If the number of the number of Board members is increased beyond five members, the number of Board members elected by Purchaser shall increase to allow Purchaser to elect the majority of Board members. So long as Purchaser retains at least 1,260 of the Convertible Preferred Shares, the Company shall have the right to appoint the Company's Chief Executive Officer.

Additional information pertaining to the Equity 11 transaction is contained in Items 1.01, 3.02, 3.03 and 10.1 of this Current Report and is incorporated herein by reference.

**Item 9.01. Financial Statements and Exhibits**

(c). Exhibits

Exhibit Number	Description
3.4	Certificate of Designation of 5% Cumulative Convertible Preferred Shares.
10.43	Commitment Letter dated August 26, 2008 between the Company and Equity 11, Ltd.
10.44	Securities Purchase Agreement dated August 28, 2008 between the Company and Equity 11, Ltd.
10.45	First Amendment to the Employment Agreement of Richard D. Stromback.
10.46	Second Amendment to the Employment Agreement of David W. Morgan.
10.47	Second Amendment to the Employment Agreement of F. Thomas Krotine.
10.48	First Amendment to the Employment Agreement of Kevin P. Stolz.

**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.

**ECOLOGY COATINGS, INC.**

DATE: August 29, 2008

By: /s/ Daniel V. Iannotti  
Daniel V. Iannotti  
Vice President, General Counsel and Secretary

CERTIFICATE OF DESIGNATION  
of  
5% CUMULATIVE CONVERTIBLE PREFERRED SHARES  
of  
ECOLOGY COATINGS, INC.

ECOLOGY COATINGS, INC. is a Nevada corporation created and existing under the laws of the state of Nevada (the “Company”), and

DOES HEREBY CERTIFY:

**Section 1. Designation; Number.**

This series of Convertible Preferred Stock is designated as the “Convertible Preferred Shares” (“Convertible Preferred Shares”). The number of shares constituting the Convertible Preferred Stock is 5,000 shares, par value \$0.001 per share.

**Section 2. Conversion.**

(a) The Convertible Preferred Shares can be converted at the Purchaser’s option at any time into shares of the Company’s common stock at a conversion price of \$0.50 per share (the “Conversion Price”). The number of common shares will be determined by dividing the stated value of the Convertible Preferred Shares to be converted by the Conversion Price.

(b) If requested by the Company, each holder of record of a share of Convertible Preferred Stock must convert any whole number or all of such holder’s shares of Convertible Preferred Stock into fully paid and nonassessable shares of Common Stock at the Conversion Price if, on or after August 25, 2009, the Company’s common stock price exceeds \$3.00 per share for a continuous 30-day period

(c) Any such conversion may be effected by the holder of Convertible Preferred Shares by surrendering such holder’s certificate or certificates for the shares of Convertible Preferred Shares to be converted, duly endorsed, at the office of the Corporation or the office of any transfer agent for the Common Stock, together with a written notice to the Corporation at such office that such holder elects to convert all or a specified number of such shares of Convertible Preferred Stock. Promptly thereafter, the Corporation shall issue and deliver to such holder a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid. Such conversion shall be made at the close of business on the date of such surrender and the person entitled to receive the shares of Common Stock issuable on such conversion shall be treated for all purposes as the record holder of such shares of Common Stock on such date.

**Section 3. Voting Rights.**

Each holder thereof shall be entitled to vote, together with the holders of the shares of Common Stock (and any other class or series that may similarly be entitled to vote with the shares of Common Stock) as a single class, upon all matters upon which holders of Common Stock are entitled to vote, with each share of Convertible Preferred Stock entitled to one vote on such matters. The Company cannot alter or adversely change the rights of the Convertible Preferred Shares, authorize or create any class of senior or parity preferred stock, amend its articles of incorporation or other charter documents in such a way that it would adversely affect the rights of the Convertible Preferred Shares or increase the number of authorized share of convertible preferred stock without the approval of holders of a majority of the Convertible Preferred Shares.

**Section 4. Dividends.**

The holders of shares of Series A Convertible Preferred Stock shall receive cumulative dividends of 5% payable semi-annually on June 1 and December 1 commencing December 1, 2008.

**Section 5. Redemption.**

In the event of any liquidation, dissolution, winding up or insolvency of the Corporation, whether voluntary or involuntary, before any distribution or payment is made to any holders of shares of Common Shares or any other class or series of capital stock of the Company designated to be junior to the Convertible Preferred Stock, and subject to the liquidation rights and preferences of any class or series of preferred stock designated in the future to be senior to, or on a parity with, the Convertible Preferred Stock with respect to liquidation preferences, the holders

of Convertible Preferred Stock shall be entitled to be paid first out of the assets of the Corporation available for distribution to holders of capital stock of all classes whether such assets are capital, surplus or earnings together with the amount of any accrued or capitalized dividends in respect thereof (the "Liquidation Preference"). After payment in full to the holders of Convertible Preferred Stock of the Liquidation Preference, holders of the Convertible Preferred Stock shall, as such, have no right or claim to any of the remaining Available Assets.

**Section 6. Optional Redemption.**

On or after August 25, 2013 the Company may redeem the convertible preferred stock, in whole or in part, at its option for the stated value at the time of such redemption, together with accrued but unpaid dividends and other payments that may be due on such shares. On or after August 25, 2015 the Purchaser may redeem the convertible preferred stock, in whole or in part, at its option for the stated value at the time of such redemption, together with accrued but unpaid dividends and other payments that may be due on such shares.

**Section 7. Additional Definitions.** For purposes of these resolutions, the following terms shall have the following meanings:

"**Common Stock**" refers to the common stock of the Corporation, par value \$0.001 per share.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Designations to be executed by a duly authorized officer of the Corporation as of this 29th day of August, 2008.

ECOLOGY COATINGS, INC.

By: /s/ Richard D. Stromback

Name: Richard D. Stromback

Title: Chairman & CEO

**COMMITMENT LETTER  
FROM EQUITY 11, LTD. TO ECOLOGY COATINGS, INC.**

**August 25, 2008**

Ecology Coatings, Inc.  
1238 Brittain Road  
Akron Ohio 44310

Re: Commitment Letter for Proposed Convertible Preferred Securities

Dear Rich;

Equity 11, Ltd., a Michigan corporation (“Equity 11”) offers the following commitment for convertible preferred securities (the “Convertible Preferred Securities”) to Ecology Coatings, Inc., a Nevada corporation (“ECOC”), subject to the terms and conditions set forth below. ECOC will use the proceeds of the Convertible Preferred Securities exclusively to operate the company in accordance with the terms and conditions of this commitment letter.

1. **Convertible Preferred Securities Terms.** The Convertible Preferred Securities offered under this commitment are described as follows and are subject to the following terms and conditions:

a. **Commitment.** Equity 11 commits up to five million (\$5,000,000.00) dollars to ECOC. The amounts contributed by Equity 11 to ECOC under this commitment letter are not guaranteed and will be subject to Equity 11’ s sole and absolute discretion. The anticipated commitment payments to ECOC are as follows:

- i. One million Two Sixty Thousand(\$1,260,000.00) dollars at closing;
- ii. Seven hundred fifty thousand (\$750,000.00) dollars within thirty (30) days at Equity 11’ s sole and absolute discretion as Equity 11 may determine from ECOC’ s cash flow or other financials;
- iii. Seven hundred fifty thousand (\$750,000.00) dollars within sixty (60) days at Equity 11’ s sole and absolute discretion as Equity 11 may determine from ECOC’ s cash flow or other financials;
- iv. One million five hundred thousand (\$1,500,000.00) dollars within one hundred eighty (180) days at Equity 11’ s sole and absolute discretion as Equity 11 may determine from ECOC’ s cash flow or other financials; and
- v. Seven Hundred Forty Thousand (\$740,000.00) dollars within two hundred forty (240) days at Equity 11’ s sole and absolute

CONFIDENTIAL

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discretion as Equity 11 may determine from ECOC' s cash flow or other financials.

**b. Type of Securities.** In exchange for Equity 11' s commitment, Equity 11 shall receive convertible preferred stock in ECOC which may be converted at the option of Equity 11 ("Convertible Preferred Stock").

**c. Amount of Securities.**

i. Convertible Preferred Stock. ECOC will issue one (1) share of Convertible Preferred Stock for each One thousand (\$1,000.00) dollars received from Equity 11 under this commitment letter. If Equity 11, at its sole and absolute discretion, decides to make all payments as anticipated above, Equity 11 will receive the following shares of Convertible Preferred Stock:

1. One Thousand two hundred sixty (1,260) shares of Convertible Preferred Stock upon execution;
2. Additional Seven Hundred Fifty (750) shares of Convertible Preferred Stock within thirty (30) days;
3. Additional Seven Hundred Fifty (750) shares of Convertible Preferred Stock within sixty (60) days;
4. Additional One Thousand Five Hundred(1,500) shares of Convertible Preferred Stock within one hundred eight (180) days; and
5. Additional Seven hundred forty (740) shares of Convertible Preferred Stock within two hundred forty (240) days.

ii. Common Stock. Assuming (i) Equity 11 commits the entire Five Million (\$5,000,000.00) dollars; (ii) all dividend payments are made to Equity 11 by ECOC and (iii) the stated value remains One Thousand (\$1,000.00) dollars per share of Convertible Preferred Stock, then Equity 11 shall be entitled to convert its Convertible Preferred Stock into Ten Million (10,000,000) shares of common stock.

**d. Dividends.** Dividends will cumulative and will accrue daily from the date of this commitment letter at the rate of five (5%) percent of the stated value of the Convertible Preferred Stock. Dividends shall be paid semi-annually on each June 1 and December 1, commencing December 1, 2008. The initial stated value of the Convertible Preferred Stock is One Thousand (\$1,000) dollars per share. Any dividends must be declared by ECOC' s board of directors and must come from funds that are legally available for dividend payments. In the event that funds are not legally available to pay any dividend on the Convertible Preferred

Stock, or if ECOC chooses to not pay the dividend in cash, the amount of the stated value of the stock shall be increased by the amount of such unpaid dividend. Dividends on the Convertible Preferred Stock will accrue regardless of whether or not earned or declared and regardless of whether or not ECOC has profits, surplus or other funds legally available for the payment of dividends.

**e. Conversion of Securities.**

- i. **Optional.** The Convertible Preferred Stock can be converted at Equity 11's option at any time into shares of the ECOC's common stock at a conversion price of fifty (\$0.50) cents per share (the "Conversion Price"). The number of common shares will be determined by dividing the stated value of the Convertible Preferred Stock to be converted by the Conversion Price.
- ii. **Mandatory.** On or after August 25, 2009, ECOC may require Equity 11 to convert up to 100% of its shares of Convertible Preferred Stock if the volume weighted average price of the ECOC's common stock price exceeds Three (\$3.00) dollars per share for a continuous 30-day period.

**f. Liquidation Preference:** The Convertible Preferred Securities shall have preferential liquidation rights over any and all registered and unregistered common stock of ECOC. In the event of a voluntary or involuntary dissolution, liquidation or winding up of ECOC, Equity 11 will be entitled to be paid a liquidation preference equal to the stated value of the Convertible Preferred Stock, plus accrued and unpaid dividends and any other payments that may be due on such shares, before any distribution of assets may be made to holders of capital stock ranking junior to the Convertible Preferred Stock.

**g. Optional Redemption:** On or after August 25, 2013, ECOC may redeem the Convertible Preferred Stock, in whole or in part, at its option for the stated value at the time of such redemption, together with accrued but unpaid dividends and other payments that may be due on such shares. On or after August 25, 2015, Equity 11 may redeem the Convertible Preferred Stock, in whole or in part, at its option for the stated value at the time of such redemption, together with accrued but unpaid dividends and other payments that may be due on such shares.

**h. Voting Rights:** The Convertible Preferred Stock will vote on an as-converted basis with the common stock. However, ECOC cannot alter or adversely change the rights of the Convertible Preferred Stock, authorize or create any class of senior or parity preferred stock, amend its articles of incorporation or other charter documents in such a way that it would adversely

affect the rights of the Convertible Preferred Stock, or increase the number of authorized shares of the Convertible Preferred Stock without the prior written approval of Equity 11.

i. **Description of Warrants:** Equity 11 shall receive Five Hundred (500) warrants to purchase common stock of ECOC for every one (1) share of Convertible Preferred Stock issued to Equity 11. The warrants are exercisable at an exercise price of seventy-five (\$0.75) cents per share of ECOC' s common stock at any time on or after August 25, 2008 for a period of five years from the date the warrants become exercisable. In total, Equity 11 will receive two million five hundred thousand (2,500,000) warrants assuming Equity 11 commits the entire five million (\$5,000,000.00) dollars to ECOC.

j. **Market for Securities:** There is no established public trading market for the offered Convertible Preferred Stock or warrants, and ECOC does not expect a market to develop. In addition, ECOC does not intend to apply for listing the Convertible Preferred Stock or warrants on any securities exchange.

k. **Governance of ECOC:** The board of directors will establish a five (5) member board. Equity 11 shall appoint three (3) directors to ECOC' s board of directors.

l. **Piggyback Registration for first six (6) months.** If the Conversion Shares have not been otherwise registered within the first six (6) months of this agreement and at any time ECOC proposes to file a registration statement, whether or not for sale for the ECOC' s own account, on a form and in a manner that would also permit registration of shares (other than in connection with a registration statement on Forms S-4 or S-8 or any similar or successor form) ECOC shall give to Equity 11, written notice of such proposed filing promptly, but in any case at least twenty (20) days before the anticipated filing. The notice referred to in the preceding sentence shall offer the holder(s) holding the Conversion Shares the opportunity to register such amount of the Conversion Shares as he may request (a "Piggyback Registration"). Subject to this Section, ECOC will include in each such Piggyback Registration (and any related qualification under state blue sky laws and other compliance filings, and in any underwriting involved therein) that portion of the Conversion Shares with respect to which ECOC has received written requests for inclusion therein within twenty (20) days after the written notice from ECOC is given. The holders holding any portion of the Conversion Shares will be permitted to withdraw all or part of the Conversion Shares from a Piggyback Registration at any time prior to the effective date of such Piggyback Registration.

m. **Registration on March 11, 2009.** ECOC agrees to have a registration on March 11, 2009. The shares of stock owned by Equity 11 and entitled to registration will be registered.

n. **Exclusivity Period:** For a period of 30 days following the mutual signing of this commitment letter (the "Exclusivity Period") ECOC may not accept a financing proposal offered by any other party, unless approved by Equity 11 after Equity 11 is offered to fund on the same terms, and ECOC and Equity 11 agree to work diligently, in good faith, to negotiate, complete and enter into definitive agreements and related closing documents, reflecting the terms and conditions hereof.

o. Equity 11 has already advanced \$210,000.00 to ECOC. Upon closing of the transaction these funds will be used as a portion of the first tranch of financing. Should the transaction not close, the value of this advance will convert to senior notes on similar terms to the notes issued by ECOC to Hayden Capital USA on February 5, 2008.

p. Upon execution of this commitment letter, Equity 11 will advance an additional fifty thousand (\$50,000.00) dollars to ECOC. In consideration of this additional fifty thousand (\$50,000.00) dollars advanced by Equity 11, ECOC shall not entertain any other equity financing offers prior to 6:00 pm Friday, August 29, 2008, so that this financing agreement may be completed. Upon closing of the transaction these funds will be used as a portion of the first tranch of financing. Should the transaction not close, the value of this advance will convert to senior notes on similar terms to the notes issued by ECOC to Hayden Capital USA on February 5, 2008.

2. **Terms and conditions.** The following terms and conditions shall apply to this transaction:

a. Miscellaneous Representations, Agreements and Employee Matters.

- i. For the length of time that Equity 11 shall have Convertible Preferred Stock outstanding, ECOC may not accept a financing proposal offered by any other party, unless approved by Equity 11 after Equity 11 is offered to fund on the same terms, and ECOC and Equity 11 agree to work diligently, in good faith, to negotiate, complete and enter into definitive agreements and related closing documents, reflecting the terms and conditions hereof.
- ii. ECOC will engage Sales Attack LC, a Michigan limited liability company ("Sales Attack") as a marketing company.
- iii. ECOC shall decrease the salary of Kevin P. Stolz to seventy thousand (\$70,000.00) dollars. Upon successful completion of the agreement with Alcoa, ECOC will restore Kevin P. Stolz to his current salary.

- David W. Morgan, the Chief Financial Officer, shall temporarily fill and take over the duties of the company controller. A
- iv. new controller will not be appointed by ECOC until Equity 11 has determined that the company can support two (2) financial positions.
  - v. Equity 11 shall have complete authority to appoint the new Chief Executive Officer of ECOC.
  - vi. ECOC has received waivers for any and all change in control provisions in existing employment contracts.
- b. ECOC shall execute and deliver documents in a form and substance satisfactory to Equity 11 that shall contain customary covenants satisfactory to Equity 11, including (without limitation) the following:
- i. There shall be no material adverse change in the assets, financial condition, or business of ECOC.
  - ii. Until there is an additional financing exceeding five million (\$5,000,000.00) dollars, ECOC shall not make any capital acquisitions or expenditures over ten thousand (\$10,000.00) dollars without the prior written consent of Equity 11.
  - iii. Except as stated in this commitment letter, ECOC shall not issue or declare any dividends with respect to any class of its respective capital stock or purchase, acquire, or redeem any such stock, without the prior written consent of Equity 11.  
ECOC shall not make any payments or transfers of property to any shareholder, officer, director, or key employee other than
  - iv. (A) salaries, bonuses, and compensation for actual services rendered, as approved by Equity 11; and (B) reasonable and customary directors' fees for directors, without the prior written consent of Equity 11.
- c. ECOC shall cause the following periodic financial information to be provided Equity 11 within the times indicated:
- i. Monthly management-prepared financial statements for ECOC shall be provided to Equity 11 within 10 days of each month end.
  - ii. Monthly management-certified accounts receivable agings and accounts payable agings for the ECOC shall be provided to the Equity 11 within 10 days of each month end.
  - iii. All financial information for ECOC shall be prepared in accordance with generally accepted accounting principles, consistently applied.

d. Equity 11 may assign, transfer or delegate any and all performance or obligations in this commitment letter to any of its affiliate companies.

e. ECOC shall agree to allow Equity 11 access, at all reasonable times, to its books, records, properties, and business premises, for Equity 11 to conduct any requested review or inspection of the entity' s assets, operations, and collateral.

f. Indemnification. ECOC shall, at ECOC' s expense, protect, defend, indemnify, save and hold Equity 11 harmless against any and all claims, demands, losses, expenses, damages, causes of action (whether legal or equitable in nature) asserted by any person or entity arising out of, caused by or relating to the Convertible Preferred Stock or Conversion Stock, including without limitation the use or application of the proceeds of the Convertible Preferred Stock, and ECOC shall pay Equity 11 upon demand all claims, judgments, damages, losses and expenses (including court costs and reasonable attorneys' fees and expenses) incurred by Equity 11 as a result of any legal or other action arising out of the Convertible Preferred Stock or Conversion Stock as aforesaid.

**3. Conditions to closing.** Equity 11' s commitment to close and fund the Convertible Preferred Securities shall be subject to prior satisfaction of each of the following conditions:

a. Equity 11 shall have received, all in form and substance satisfactory to Equity 11, evidence of the due organization, existence, and good standing of ECOC and of ECOC' s authority to execute and deliver documents with respect to the Convertible Preferred Securities.

b. There shall have been no material adverse change to ECOC or their businesses, assets, operations, or financial condition since the date of the most recent financial statements provided to Equity 11 as of the date of this commitment letter.

**4. Expiration of the commitment; miscellaneous.**

a. To be effective, this commitment must be accepted by the undersigned in writing and delivered to us, not later than 10:00 pm, **August 25, 2008**. Equity 11 reserves the right to modify or terminate this commitment unilaterally (i) if the closing of the Convertible Preferred Securities has not occurred by **August 29, 2008**; (ii) if on or before that date ECOC has failed to comply with any of the terms or conditions of this letter; (iii) if any adverse material change occurs in the business, assets, operations, or financial condition of ECOC; or (iv) if any representation or information supplied by ECOC to Equity 11 proves to be untrue, incomplete, or misleading in any material respect. ECOC' s rights and interest in this commitment shall not be assignable in whole or in part to any other person or entity.

b. The specific terms of this term sheet are confidential to Equity 11 and may not be disclosed by ECOC except as may be approved by Equity 11, it being understood that certain public disclosure will be required upon the closing of this transaction.

c. This commitment letter shall be governed by the laws of the State of Michigan.

d. Titles and Subtitles. The titles of the paragraphs and subparagraphs of this Commitment letter are for the convenience of reference only and are not be considered in construing this agreement.

e. This commitment letter, when signed by all of the parties, shall represent the complete agreement of the parties concerning the subject matter and shall supersede any and all prior written or oral agreements or understandings respecting the matter. This commitment letter may be amended only by means of a writing executed by all of the parties.

Please acknowledge your acceptance of this commitment by executing this letter in the space provided below and by returning an executed copy to me at the address of 2701 Cambridge Court, Suite 420, Auburn Hills, MI 48326.

Equity 11, Ltd.,  
a Michigan corporation

/s/ JB Smith

By: JB Smith  
Its: CEO

Agreed and Accepted:

**ECOLOGY COATINGS, INC.,**  
a Nevada corporation

/s/ Richard D. Stromback

By: Richard D. Stromback  
Its: Chairman & CEO  
Date: 8/27/08

CONFIDENTIAL

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SECURITIES PURCHASE AGREEMENT

DATED AS OF AUGUST 28, 2008

between

ECOLOGY COATINGS, INC.

and

EQUITY 11, Ltd.



**SECURITIES PURCHASE AGREEMENT** (this "Agreement"), dated as of August , 2008, between **Ecology Coatings, Inc.**, a corporation organized under the laws of the state of Nevada (the "Company"), and **Equity 11, Ltd.**, a corporation organized under the laws of the state of Michigan (the "Purchaser").

## RECITALS

**WHEREAS**, the Company desires to sell to the Purchaser, and the Purchaser desires to purchase from the Company, up to 5,000 5.0% Cumulative Convertible Preferred Shares of the Company at a price per share of \$1000 (the "Convertible Preferred Shares") containing the terms set forth in the Certificate of Designation attached as Exhibit A hereto (the "Certificate of Designation").

**NOW, THEREFORE**, in consideration of the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the Company and the Purchaser agree as follows:

All capitalized terms used and not otherwise defined in this Agreement shall have the definitions set forth on Annex I.

## ARTICLE I Sale of the Convertible Preferred Shares

### Section 1.1 Authorization of Issuance and Sale and Delivery of the Convertible Preferred Shares.

Subject to the terms and conditions hereof, the Purchaser agrees to purchase at the Closing (as defined below), and the Company agrees to sell and issue to the Purchaser at the Closings, the Convertible Preferred Shares at an aggregate purchase price of up to \$5,000,000 (the "Aggregate Purchase Price"), representing a price per Convertible Preferred Share of \$1,000.

### Section 1.2 The Closing of the Sale of the Convertible Preferred Shares.

The closings (the "Closings") shall take place at the offices of Purchaser, at 8:00 p.m., New York time, on the date hereof, or such other time and date as the parties may agree upon (the date that the Closing occurs, the "Closing Date"). At the Closing, on the terms and subject to the conditions contained herein, the Company shall issue and deliver the Convertible Preferred Shares against receipt by the Company of the Aggregate Purchase Price by wire transfer of immediately available funds to an account, which the Company shall designate to the Purchaser prior to the Closing in writing. The Convertible Preferred Shares shall be evidenced by certificates.

## ARTICLE II The Initial Closing

### Section 2.1 Closing Requirements.

(1) Within two (2) business days, the Company shall deliver to the Purchaser:

(a) a duly executed share certificate registered in the name of the Purchaser, representing 1,260 Convertible Preferred Shares being purchased by the Purchaser pursuant to this Agreement;

(b) a Secretary' s Certificate, duly executed by the Secretary of the Company, appending certified copies of the Company' s Fundamental Documents and minutes/resolutions of the Board of Directors of the Company (the "Board") (and, if applicable, any committee) approving the Documents and the transactions contemplated thereby (including, without limitation, the Certificate of Designation );

(c) an Incumbency Certificate, duly executed by an authorized officer of the Company, certifying with respect to the incumbency of the officers listed thereon and the genuineness of such officers' respective signatures;

(2) At the initial closing, the Company shall deliver a duly executed counterpart signature page to a cross-receipt (the "Cross-Receipt") with respect to the Company's receipt of the Aggregate Purchase Price of \$1,260,000 and the Purchaser's receipt of the 1,260 Convertible Preferred Shares; and

(3) At the Initial Closing, the Purchaser shall deliver to the Company:

(a) the Aggregate Purchase Price of \$1,260,000 for the Convertible Preferred Shares being purchased by the Purchaser pursuant to this Agreement, less amounts previously advanced to the Company; and

(b) a duly executed counterpart signature page to the Cross-Receipt.

Section 2.2 Purchases of Additional Preferred Shares.

(1) Purchaser, in Purchaser's sole and absolute discretion, may purchase up to 3740 additional Convertible Preferred Shares by the dates and not less than the amounts as shown below:

<u>Days from Initial Closing</u>	<u>Number of Shares</u>	<u>Aggregate Purchase Price</u>
30	750	\$ 750,000
60	750	\$ 750,000
180	1500	\$ 1,500,000
240	740	\$ 740,000

(2) For each such additional purchase, Company shall deliver to Purchaser:

(a) a duly executed share certificate registered in the name of the Purchaser, representing the number of additional Convertible Preferred Shares being purchased by the Purchaser pursuant to this Agreement;

(b) a Secretary's Certificate, duly executed by the Secretary of the Company, appending certified copies of the Company's Fundamental Documents and minutes/resolutions of the Board of Directors of the Company (the "Board") (and, if applicable, any committee) approving the Documents and the transactions contemplated thereby (including, without limitation, the Certificate of Designation);

(c) an Incumbency Certificate, duly executed by an authorized officer of the Company, certifying with respect to the incumbency of the officers listed thereon and the genuineness of such officers' respective signatures;

(d) a duly executed counterpart signature page to a cross-receipt (the "Cross-Receipt") with respect to the Company's receipt of the Aggregate Purchase Price and the Purchaser's receipt of the additional Convertible Preferred Shares.

(3) For each purchase of additional Convertible Preferred Shares, the Purchaser shall deliver to the Company:

(a) the Aggregate Purchase Price for the additional Convertible Preferred Shares being purchased by the Purchaser pursuant to this Agreement; and

(b) a duly executed counterpart signature page to the Cross-Receipt.

Section 2.3 Restrictive Legend.

The certificate representing each of the Convertible Preferred Shares shall be stamped or otherwise imprinted with a legend substantially in the following form (in addition to any legend required by applicable state securities Laws), upon issuance thereof, and until such time as the same is no longer required under the applicable requirements of the Securities Act:

**THE 5% CUMULATIVE CONVERTIBLE PREFERRED SHARES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS OR ANY OTHER APPLICABLE SECURITIES LAWS, AND ECOLOGY COATINGS, INC. (THE "COMPANY") HAS NOT BEEN REGISTERED UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). NEITHER SUCH 5% CUMULATIVE CONVERTIBLE PREFERRED SHARES NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, RESOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.**

**THE HOLDER, BY ITS ACCEPTANCE HEREOF, AGREES TO OFFER, RESELL OR OTHERWISE TRANSFER THE 5% CUMULATIVE CONVERTIBLE PREFERRED SHARES REPRESENTED HEREBY, UNLESS SUCH 5% CUMULATIVE CONVERTIBLE PREFERRED SHARES NO LONGER CONSTITUTE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144 UNDER THE SECURITIES ACT, ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) TO ONE OR MORE PERSONS, EACH OF WHICH IS AN "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501 UNDER THE SECURITIES ACT) THAT IS ACQUIRING SUCH 5% CUMULATIVE CONVERTIBLE PREFERRED SHARES FOR ITS OWN ACCOUNT FOR INVESTMENT AND NOT WITH A VIEW TO, OR FOR OFFER OR SALE IN CONNECTION WITH, ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT OR OTHER APPLICABLE SECURITIES LAWS OR (D) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, IN EACH CASE SUBJECT TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH ACCREDITED INVESTOR BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL.**

**TO THE FULLEST EXTENT PERMITTED BY LAW, ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTION TO THE CONTRARY TO THE COMPANY, THE TRANSFER AGENT OR ANY INTERMEDIARY.**

Furthermore, the Convertible Preferred Share certificate will contain a legend substantially to the following effect:

THE COMPANY WILL FURNISH TO ANY SHAREHOLDER ON REQUEST AND WITHOUT CHARGE A FULL STATEMENT OF (1) ANY RESTRICTIONS, LIMITATIONS, PREFERENCES OR REDEMPTION PROVISIONS CONCERNING THE 5% CUMULATIVE CONVERTIBLE PREFERRED

SHARES AND (2) THE DESIGNATIONS AND ANY PREFERENCES, CONVERSION AND OTHER RIGHTS, VOTING POWERS, RESTRICTIONS, LIMITATIONS AS TO DISTRIBUTIONS, AND OTHER QUALIFICATIONS AND TERMS AND CONDITIONS OF REDEMPTION OF THE 5% CUMULATIVE CONVERTIBLE PREFERRED SHARES, THE DIFFERENCES IN THE RELATIVE RIGHTS AND PREFERENCES BETWEEN THE SHARES OF EACH SERIES OF SUCH CLASS TO THE EXTENT THEY HAVE BEEN SET, AND THE AUTHORITY OF THE BOARD OF DIRECTORS OF THE COMPANY TO SET THE RELATIVE RIGHTS AND PREFERENCES OF SUBSEQUENT SERIES OF 5% CUMULATIVE CONVERTIBLE PREFERRED SHARES. 5% CUMULATIVE CONVERTIBLE PREFERRED SHARES WILL BE ISSUED AND MAY BE TRANSFERRED ONLY IN WHOLE SHARES.

### **ARTICLE III**

#### **Representations and Warranties of the Company**

As a material inducement to the Purchaser to enter into and perform its obligations under this Agreement, the Company hereby represents and warrants to the Purchaser as follows:

Section 3.1 Due Creation, Good Standing and Due Qualification. The Company has been duly created and is validly existing corporation in good standing under the laws of the state of Nevada, and pursuant to the resolutions of the Board (or a duly authorized committee thereof) has full power and authority to own, lease and operate its properties and conduct its business as presently being conducted and to enter into and perform its obligations under, or as contemplated under, this Agreement; and the Company is duly qualified to transact business as a foreign entity and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not result in a material adverse change in the business, Assets, liabilities, operations, condition (financial or otherwise) or operating results of the Company and its Subsidiaries (as defined herein), taken as a whole (a "Material Adverse Effect").

Section 3.2 Authorization; Enforceability; Corporate and Other Proceedings.

(1) The Company has all requisite power and authority to execute and deliver each Document to which it is a party and to perform its obligations under each such Document. Each Document to which the Company is a party has been duly authorized by all necessary action on the part of the Company, and each Document to which the Company is a party has been duly executed and delivered by the Company, and, assuming the due authorization, execution and delivery by the other parties thereto, constitutes the valid and legally binding obligation of the Company, enforceable in accordance with its terms and conditions, except that the enforcement thereof may be subject to (i) bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance or other similar laws now or hereafter in effect relating to creditors' rights generally and (ii) general principles of equity (whether applied by a court of law or equity) and the discretion of the court before which any proceeding therefor may be brought.

(2) The authorization, issuance, sale and delivery of the Convertible Preferred Shares have been duly authorized by all requisite action of the Board. Notwithstanding anything contained on the schedules attached hereto, the Convertible Preferred Shares being issued as of the Closing Date, if and when issued, will be duly and validly issued and outstanding, fully paid and nonassessable interests in the Company, with no personal liability attaching to the ownership thereof, free and clear of any Liens and will not be subject to preemptive rights or other similar rights of any security holder of the Company. The underlying Common Shares issuable upon conversion of the Convertible Preferred Shares have been duly authorized by all requisite action of the Board and, when issued upon such conversion and delivered against surrender of the Convertible Preferred Shares, will be duly and validly issued, fully paid and nonassessable interests in the Company and will not be subject to any preemptive right, resale right, right of first refusal or other similar rights of any security holder of the Company.

Section 3.3 Non Contravention. Notwithstanding anything contained on the schedules attached hereto, the execution, delivery and performance by the Company of the Documents, the consummation of the transactions contemplated hereby and thereby and compliance with the provisions hereof and thereof, including the issuance, sale and delivery of the Convertible Preferred Shares have not, do not and shall not (whether with or without the giving of notice or passage of time or both), (a) violate any Law to which the Company or any of its Subsidiaries is subject, (b) violate any provision of the Fundamental Documents of the Company or the Fundamental Documents of the Company's Subsidiaries, (c) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, require the repurchase, redemption or repayment of, terminate, modify or cancel, or require any notice under any material contract to which the Company or any of its Subsidiaries is a party, or (d) result in the imposition of any Lien upon any of the Assets of the Company or any of its Subsidiaries.

Section 3.4 Absence of Defaults. Except as disclosed in SEC filings, the Company is not in violation of its respective Fundamental Documents and neither the Company nor any of its Subsidiaries are in default in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which the Company or any of its Subsidiaries is a party or by which any of them may be bound or to which any of the property or assets of the Company or any of its Subsidiaries is subject, except for such violations or defaults that would not result in a Material Adverse Effect.

Section 3.5 Capitalization of the Company.

(1) All of the issued and outstanding beneficial interests in the Company have been duly and validly authorized and issued and are fully paid and nonassessable interests in the Company, have been issued in compliance with all federal and state securities laws and were not issued in violation of any preemptive right, resale right, right of first refusal or other similar right.

(2) Except as contemplated by the Documents, the Certificate of Designation or as otherwise disclosed in the SEC Reports, there are, and immediately after consummation of any Closing there will be, no (i) except for the First Closing, outstanding warrants, options, agreements, convertible securities or other commitments or instruments pursuant to which the Company is or may become obligated to issue or sell any shares of the Company's capital stock or other securities (or securities convertible into securities of the Company), (ii) preemptive rights, resale rights, rights of first refusal or similar rights to purchase or otherwise acquire shares of the capital stock or other securities of the Company pursuant to any provision of Law, the Company's Fundamental Documents or any contract, "shareholders' rights plan", "poison pill" or similar plan, arrangement or scheme to which the Company is a party or (iii) right, contractual or otherwise, to cause the Company to register pursuant to the Securities Act, any beneficial interests in the Company upon the issue and sale of the Convertible Preferred Shares, in each case, other than those rights that have been expressly waived, fully and unconditionally, prior to the date hereof; immediately following the Closing hereunder, the Convertible Preferred Shares will represent 23.7% of the Company's Common Shares on a fully diluted basis, assuming vesting of all outstanding restricted Common Shares and conversion or exchange of all outstanding vested options exercisable for Common Shares.

Section 3.6 Offering Exemption. Based upon and assuming the accuracy of the representations of the Purchaser in Article VI, the offering, sale and issuance of the Convertible Preferred Shares do not require registration under the Securities Act or applicable state securities and "blue sky" Laws. The Company has made or shall make all requisite filings and has taken or will take all action necessary to be taken to comply with such federal and state securities or "blue sky" Laws.

Section 3.7 SEC Reports. The Company's Annual Report on Form 10-KSB most recently filed with the SEC (the "Annual Report") and (ii) each subsequent report filed with the SEC pursuant to the Exchange Act (together with the Annual Report, the "SEC Reports"), as of their respective dates, did not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of

the circumstances under which they were made, not misleading. Such documents, when they were filed with the SEC, conformed in all material respects to the requirements of the Exchange Act and the rules and regulations of the SEC thereunder. Since the date of the filing of the Annual Report with the SEC, the Company has made all filings with the SEC required to be made by the Company under the Exchange Act.

Section 3.8 Financial Statements. The consolidated financial statements of the Company contained in the SEC Reports (the “Financial Statements”) complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto, were prepared in accordance with GAAP applied on a consistent basis during the periods involved and fairly present, in all material respects, in conformity with GAAP, the consolidated financial position of the Company and its consolidated Subsidiaries as of the dates thereof and their consolidated results of operations and changes in financial position for the periods then ended (except, in each case, as may be indicated in the notes thereto and subject, in each case, to normal year-end adjustments in the case of any unaudited interim financial statements).

Section 3.9 No Material Adverse Change. Since June 30, 2008 (the date of the most recent financial statements of the Company filed with the SEC), except as otherwise stated therein or in the SEC Reports, there has not been (i) any change resulting in a Material Adverse Effect, (ii) any transaction which is material to the Company or its Subsidiaries, except transactions in the ordinary course of business, (iii) any obligation, direct or contingent, which is material to the Company and its Subsidiaries taken as a whole, incurred by the Company or its Subsidiaries, except obligations incurred in the, ordinary course of business, (iv) any change in the beneficial interests in or outstanding indebtedness of the Company or its Subsidiaries, except changes in the ordinary course of business or (v) except for regular quarterly dividends on the beneficial interests in the Company or its Subsidiaries, in amounts per share that are consistent with past practice, there has been no dividend or distribution of any kind declared, paid or made on the beneficial interests in the Company or its Subsidiaries. Neither the Company nor its Subsidiaries has any material contingent obligation which is not disclosed in this Agreement or the SEC Reports.

Section 3.10 No Consent or Approval Required. No consent, approval or authorization of, or declaration to or filing with, any Person, including pursuant to the Hart Scott Rodino Antitrust Improvements Act of 1976, as amended, is required by the Company for the valid authorization, execution and delivery by the Company of any Document or for its consummation of the transactions contemplated thereby or for the valid authorization, issuance and delivery of the Convertible Preferred Shares, other than those consents, approvals, authorizations, declarations or filings which have been obtained or made, as the case may be, and such as may be required under state securities or “blue sky” laws in connection with the purchase and resale of the Convertible Preferred Shares.

Section 3.11 Absence of Proceedings. Except as disclosed in the SEC Reports, there is no Proceeding now pending, or, to the knowledge of the Company, threatened, against or affecting the Company or any of its Subsidiaries which, singly or in the aggregate, would result in a Material Adverse Effect, or which might reasonably be expected to materially and adversely affect the consummation of the transactions contemplated herein or the performance by the Company of its obligations hereunder.

Section 3.12 Possession of Licenses and Permits. The Company and its Subsidiaries possess such permits, licenses, approvals, consents and other authorizations (collectively, “Governmental Licenses”) issued by the appropriate federal, state, local or foreign, regulatory agencies or bodies necessary to conduct the businesses now operated by them; the Company and its Subsidiaries are in compliance with the terms and conditions of all such Governmental Licenses, except where the failure so to comply would not, singly or in the aggregate, result in a Material Adverse Effect; all of the Governmental Licenses are valid and in full force and effect, except where the invalidity of Governmental Licenses or the failure of such Governmental Licenses to be in full force and effect would not, singly or in the aggregate, result in a Material Adverse Effect; and neither the Company nor any of its Subsidiaries has received any notice of proceedings relating to the revocation or modification of any Governmental Licenses which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in a Material Adverse Effect.

Section 3.13 Title to Property. The Company and its Subsidiaries do not own any real property nor do they have any leases or subleases with respect to any real property; the Company and its Subsidiaries have good and marketable title to the investments described in the SEC Reports, in each case, free and clear of all Liens of any kind except such as (i) are described in the SEC Reports or (ii) do not, singly or in the aggregate, materially affect the value of any such investments; and neither the Company nor any of its Subsidiaries has any notice of any material claim of any sort that has been asserted by anyone adverse to the rights of the Company or any of its Subsidiaries under any of such investments, or affecting or questioning the rights of the Company or any Subsidiary thereof to the continued possession of the investments.

Section 3.14 Investment Company Act. The Company is not, and upon the issuance and sale of the Convertible Preferred Shares as herein contemplated and the application of the net proceeds therefrom will not be, an “investment company” or an entity “controlled” by an “investment company”, as such terms are defined in the Investment Company Act of 1940, as amended.

Section 3.15 Limitation of Personal Liability. The holders of the Convertible Preferred Shares will be entitled to the same limitation of personal liability as that extended to stockholders of private corporations for profit organized under the General Corporation Law of the State of Nevada; provided, however, that pursuant to the terms of this Agreement, the Purchaser will indemnify the Company against any liability resulting from any inaccuracy in or breach of any such investor’s representations and warranties in accordance with the terms hereof; and provided.

Section 3.16 Similar Offerings. None of the Company, its Affiliates, or any Person acting on its or any of their behalf (in each case other than the Purchaser, as to which the Company makes no representation), has, directly or indirectly, solicited any offer to buy, sold or offered to sell or otherwise negotiated in respect of, or will solicit any offer to buy, sell or offer to sell or otherwise negotiate in respect of, in the United States or to any United States citizen or resident, any security which is or would be integrated with the sale of the Convertible Preferred Shares in a manner that would require the Convertible Preferred Shares to be registered under the Securities Act.

Section 3.17 No General Solicitation. None of the Company, its Affiliates or any person acting on its or any of their behalf (in each case other than the Purchaser, as to whom the Company makes no representation) has engaged or will engage, in connection with the offering of the Convertible Preferred Shares, in any form of general solicitation or general advertising within the meaning of Rule 502(c) under the Securities Act.

Section 3.18 Maintenance of Controls and Procedures. The Company has established and maintains “disclosure controls and procedures” (as such term is defined in Rules 13a-15 and 15d-15 under the Exchange Act) that (A) are designed to ensure that material information relating to the Company, including its Subsidiaries, is made known to the Company’s Chief Executive Officer and its Chief Financial Officer by others within those entities, particularly during the periods in which the filings made by the Company with the SEC which it may make under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act are being prepared and (B) have been evaluated for effectiveness as of the end of the Company’s most recent quarterly report on Form 10-QSB filed with the SEC. The Company’s accountants and the audit committee of the Board have been advised of (x) any significant deficiencies in the design or operation of internal controls that could adversely affect the Company’s ability to record, process, summarize, and report financial data and (y) any fraud, whether or not material, that involves management or other employees who have a role in the Company’s internal controls.

Section 3.19 Brokers or Finders. The Company has not retained any investment banker, broker or finder in connection with this Agreement or the transactions contemplated hereby (including the sale of the Convertible Preferred Shares) or incurred any liability for any brokerage or finders’ fees, agent commissions or any similar charges in connection with this Agreement or the transactions contemplated hereby.

**ARTICLE IV**  
**Representations and Warranties of the Purchaser**

As a material inducement to the Company to enter into and perform its obligations under this Agreement, the Purchaser represents, warrants and covenants to the Company as follows:

Section 4.1 Experience. The Purchaser is an “accredited investor” within the meaning of Regulation D promulgated under the Securities Act and, by virtue of its experience in evaluating and investing in private placement transactions of securities in companies similar to the Company, the Purchaser is capable of evaluating the merits and risks of its investment in the Company and has the capacity to protect its own interests. The Purchaser has had access to the Company’s senior management and has had the opportunity to conduct such due diligence review as it has deemed appropriate.

Section 4.2 Investment. The Purchaser has not been formed solely for the purpose of making this investment and is not making this investment with the view to, or for resale in connection with, any distribution of any part thereof in violation of, or in a manner that would require registration of the Convertible Preferred Shares being purchased hereby under, the Securities Act. The Purchaser understands that the Convertible Preferred Shares have not been registered under the Securities Act or applicable state securities or “blue sky” Laws by reason of a specific exemption from the registration provisions of the Securities Act and applicable state securities or “blue sky” Laws, the availability of which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Purchaser’s representations as expressed herein and the Purchaser will not take any actions that would have caused the Convertible Preferred Shares being purchased hereby to be registered under the Securities Act. Notwithstanding the foregoing, the use of the proceeds thereof shall not be deemed to be a violation of this representation, warranty and covenant.

Section 4.3 Transfer Restrictions. The Purchaser acknowledges and understands that it must bear the economic risk of this investment for an indefinite period of time because the Convertible Preferred Shares must be held indefinitely unless subsequently registered under the Securities Act and applicable state securities or “blue sky” Laws or unless an exemption from such registration is available. The Purchaser understands that any transfer agent of the Company will be issued stop transfer instructions with respect to the Convertible Preferred Shares unless any transfer thereof is subsequently registered under the Securities Act and applicable state securities or “blue sky” Laws or unless an exemption from such registration is available.

Section 4.4 Brokers or Finders. The Purchaser has not retained any investment banker, broker or finder in connection with this Agreement or the transactions contemplated hereby (including the sale of the Convertible Preferred Shares) or incurred any liability for any brokerage or finders’ fees, agent commissions or any similar charges in connection with this Agreement or the transactions contemplated hereby.

Section 4.5 Organization; Good Standing; Qualification and Power. The Purchaser is duly organized, validly existing and in good standing under the Laws of its jurisdiction of formation, has all requisite power to carry on its business as presently being conducted and is qualified to do business and in good standing in every jurisdiction in which the failure so to qualify or be in good standing could reasonably be expected to have a material adverse effect on the business, Assets, liabilities, operations, condition (financial or otherwise) or operating results of the Purchaser and its subsidiaries, taken as a whole (a “Purchaser Material Adverse Effect”).

Section 4.6 Authorization; Enforceability; Corporate and Other Proceedings. The Purchaser has all requisite power and authority to execute and deliver each Document to which it is a party and to perform its obligations under each such Document. Each Document to which the Purchaser is a party has been duly authorized by all necessary action on the part of the Purchaser, and each Document to which the Purchaser is a party has been duly executed and delivered by the Purchaser, and assuming the due authorization, execution and delivery by the other parties thereto constitutes the valid and legally binding obligation of the Purchaser, enforceable in accordance with its terms and conditions, except that the enforcement thereof may be subject to (i) bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance or other similar laws now or hereafter in effect

relating to creditors' rights generally and (ii) general principles of equity (whether applied by a court of law or equity) and the discretion of the court before which any proceeding therefor may be brought.

Section 4.7 Non Contravention. The execution, delivery and performance by the Purchaser of the Documents, the consummation of the transactions contemplated thereby and compliance with the provisions thereof, including the purchase of the Convertible Preferred Shares have not, do not and shall not, (a) violate any Law to which the Purchaser or any of its subsidiaries is subject, (b) violate any provision of the Fundamental Documents of the Purchaser or any of its subsidiaries, (c) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, require the repurchase of, terminate, modify or cancel, or require any notice under any material contract to which the Purchaser or any of its subsidiaries is a party or (d) result in the imposition of any Lien upon any of the Assets of the Purchaser or any of its subsidiaries, except in the case of (a), (c) and (d), as would not have a Purchaser Material Adverse Effect.

Section 4.8 No Consent or Approval Required. No consent, approval or authorization of, or declaration to or filing with, any Person is required by the Purchaser for the valid authorization, execution and delivery by the Purchaser of any Document or for its consummation of the transactions contemplated thereby or for the purchase of the Convertible Preferred Shares, other than those consents, approvals, authorizations, declarations or filings which have been obtained or made, as the case may be, and such as may be required under state securities or "blue sky" laws in connection with the purchase and resale of the Convertible Preferred Shares.

Section 4.9 Similar Offerings. None of the Purchaser, its Affiliates or any Person acting on its or any of their behalf (in each case other than the Company( as to which the Purchaser makes no representation), has, directly or indirectly, solicited any offer to buy, sold or offered to sell or otherwise negotiated in respect of, or will solicit any offer to buy, sell or offer to sell or otherwise negotiate in respect of, in the United States or to any United States citizen or resident, any security which is or would be integrated with the sale of the Convertible Preferred Shares in a manner that would require the Convertible Preferred Shares to be registered under the Securities Act.

Section 4.10 No General Solicitation. None of the Purchaser, its Affiliates or any person acting on its or any of their behalf (in each case other than the Company, as to whom the Purchaser makes no representation) has engaged or will engage, in connection with the offering of the Convertible Preferred Shares, in any form of general solicitation or general advertising within the meaning of Rule 502(c) under the Securities Act.

## **ARTICLE V**

### **Covenants**

#### Section 5.1 Governance Rights.

(1) For a period of three years, the Company shall, acting through the Board, consistent with and subject to its duties under Nevada law, take all actions necessary allow the Purchaser to elect three (3) Board members. The number of seats on the Board shall be five. If there is an amendment to the Articles of Incorporation or Bylaws of Company to increase the number of board seats greater than 5, the Company will increase the number of Board members to be elected by Purchaser sufficient that the number of directors appointed by Purchaser shall be a majority of Board seats. Of the three members designated by Purchaser for election to the Board of Directors, at least one shall qualify as "independent" in accordance with the applicable listing standards of the NYSE or any other national or regional securities exchange or system of automated dissemination of securities prices in the United States on which the common shares are then traded or quoted, each as amended from time to time at least one of the three directors and will also qualify as a "financial expert" under Section 407 of Sarbanes-Oxley and SEC Rules (17 CFR § 229.401). Notwithstanding the foregoing, if after three (3) years after the Effective Date of this Agreement, Purchaser does not hold at least 5,000 Convertible Preferred Shares, Purchaser

shall obtain the required number of resignations from members of the Board of Directors that Purchaser has elected in accordance with the following:

<u>Number of Convertible Shares Held</u>	<u>Number of Directors to Elect</u>
0	0
1 – 1,667	1
1,668 – 3,334	2
3,335 – 5,000	3

(2) The Purchaser shall provide written notice (the “Designation Notice”) to the Board identifying each Designee. Upon receiving a Designation Notice, the Board shall take such actions as may reasonably be within their power, consistent with and subject to their duties under Nevada law, to cause the Board to nominate for appointment to the Board, the Designee(s), to include the Designee(s) in the Company’ s next election for directors to its Board and to recommend that the shareholders of the Company vote for the Designee(s) for election to the Board.

(3) To the extent that a Designee is unable to stand for election for any reason, the Purchaser shall promptly provide to the Board a written notice of the name of the person to be designated by them in substitution of such prior Designee.

(4) In the event that a Designee ceases to serve as a Board member of the Company due to death, resignation or removal of said director, the Purchaser may submit written notice to the Board designating an individual to replace said Designee. The Board shall, consistent with and subject to their duties under Nevada law, promptly recommend that the Board appoint such replacement designee as a Board member of the Company to fill any vacancy resulting from the death, resignation or removal of the Designee and to include the Designee in the Company’ s next election to its Board and recommend that the shareholders of the Company vote for the Designee for election to the Board. If any such Designee is elected at an Annual Meeting of Shareholders of the Company, the Designee will be nominated to the Board as a member of the class of directors whose office have expired in that year.

(5) So long as Purchaser retains at least 1,260 of the Convertible Preferred Shares, the Company shall, acting through the Board, consistent with and subject to their duties under Nevada law, take all actions necessary to cause the nomination and election by the Board of a Chief Executive Officer designated by Purchaser.

Section 5.2 Dividends. Dividends will be cumulative and will accrue daily from the date of each Closing of this offering at the annual rate of 5% of the stated value of the Convertible Preferred Shares, payable semi-annually on each June 1 and December 1, commencing December 1, 2008. The initial stated value of the preferred stock is \$1,000 per share. Any dividends must be declared by the Company’ s Board of Directors and

must come from funds that are legally available for dividend payments. In the event that funds are not legally available to pay any dividend on the convertible preferred stock, or if the Company chooses to not pay the dividend in cash, the amount of the stated value of the stock shall be increased by the amount of such unpaid dividend. Dividends on the Convertible Preferred Shares will accrue regardless of whether or not earned or declared and regardless of whether or not the Company has profits, surplus or other funds legally available for the payment of dividends. Except as stated in this Agreement, Company shall not issue or declare any dividends with respect to any class of its respective capital stock or purchase, acquire, or redeem any such stock, without the prior written consent of Purchaser.

#### Section 5.3 Conversion.

(1) The Convertible Preferred Shares can be converted at the Purchaser's option at any time into shares of the Company's common stock at a conversion price of \$0.50 per share (the "Conversion Price"). The number of common shares will be determined by dividing the stated value of the Convertible Preferred Shares to be converted by the Conversion Price. On or after August 25, 2009, the Company may require the Purchaser to convert up to 100% of its shares of convertible preferred stock if the volume weighted average price of the Company's common stock price exceeds \$3.00 per share for a continuous 30-day period.

(2) Assuming (i) Purchaser purchases and retains ownership of 5,000 Convertible Preferred Shares, (ii) all dividend payments are made to Purchaser by Company, and (iii) the stated value remains One Thousand (\$1,000.00) dollars per share of Convertible Preferred Stock, then Purchaser shall be entitled to convert its Convertible Preferred Stock into Ten Million (10,000,000) shares of common stock of the Company.

Section 5.4 Liquidation Preference. In the event of a voluntary or involuntary dissolution, liquidation or winding up of the Company, the Purchaser will be entitled to be paid a liquidation preference equal to the stated value of the Convertible Preferred Shares, plus accrued and unpaid dividends and any other payments that may be due on such shares, before any distribution of assets may be made to holders of capital stock ranking junior to the Convertible Preferred Shares.

Section 5.5 Optional Redemption. On or after August 25, 2013 the Company may redeem the Convertible Preferred Shares, in whole or in part, at its option for the stated value at the time of such redemption, together with accrued but unpaid dividends and other payments that may be due on such shares. On or after August 25, 2015 the Purchaser may redeem the Convertible Preferred Shares, in whole or in part, at its option for the stated value at the time of such redemption, together with accrued but unpaid dividends and other payments that may be due on such shares.

Section 5.6 Voting Rights. The Convertible Preferred Shares will vote on an as-converted basis with the common stock. However, the Company cannot alter or adversely change the rights of the convertible preferred stock, authorize or create any class of senior or parity preferred stock, amend its articles of incorporation or other charter documents in such a way that it would adversely affect the rights of the convertible preferred stock, or increase the number of authorized shares of the convertible preferred stock without the approval of holders of a majority of the convertible preferred stock.

Section 5.7 Distributions Upon Redemption. Upon redemption of the Purchaser's Convertible Preferred Shares, the Company hereby confirms that the Purchaser shall be entitled to accrued and unpaid distributions at an annual rate of 5% (computed on the basis of a 360-day year consisting of twelve 30-day months as provided in the Certificate of Designation) from the issue date thereof to, but excluding, the redemption date, whether or not declared by the Board, as set forth in the Certificate of Designation.

#### Section 5.8 Registration Rights.

(1) If Purchaser has converted its Convertible Preferred Shares to common stock of the Company and such shares have not been otherwise registered within the first six (6) months of this Agreement and at any time the Company proposes to file a registration statement with the SEC, whether or not for sale for the Company's own account, on a form and in a manner that would also permit registration of shares (other than in connection with a registration statement on Forms S-4 or S-8 or any similar or successor form), Company shall give to Purchaser, written notice of such proposed filing promptly, but in any case at least twenty (20) days before the anticipated filing. The notice referred to in the preceding sentence shall offer the holder(s) holding the Conversion Shares the opportunity to register such amount of the Conversion Shares as he may request (a "Piggyback Registration"). Subject to this Section, Company will include in each such Piggyback Registration (and any related qualification under state blue sky laws and other compliance filings, and in any underwriting involved therein) that portion of the Conversion Shares with respect to which Company has received written requests for inclusion therein within twenty (20) days after the written notice from Company is given. The holders holding any portion of the Conversion Shares will be permitted to withdraw all or part of the Conversion Shares from a Piggyback Registration at any time prior to the effective date of such Piggyback Registration.

(2) The Company will file for a registration of its common stock with the SEC on or before March 11, 2009. To the extent Purchaser converts its Convertible Preferred Shares into common stock of the Company and/or exercise warrants to purchase common stock of the Company, such common shares will be included in the shares for which the Company will seek registration. Company shall bear all costs, fees and expenses associated with the registration filing.

Section 5.9 Exclusivity Period. During the time that Purchaser retains ownership of at least 1,260 Convertible Preferred Shares (the "Exclusivity Period"), the Company may not accept a financing proposal offered by any other party, unless approved by Purchaser after Purchaser is offered to fund on the same terms, and Company and Purchaser agree to work diligently, in good faith, to negotiate, complete and enter into definitive agreements and related closing documents, reflecting the terms and conditions hereof.

Section 5.10 Exclusive Equity Offer. Company will not entertain any other equity financing offers prior to 6:00 pm Friday, August 29, 2008, so that this Agreement may be completed and executed.

Section 5.11 Marketing Engagement. Within thirty (30) days of execution of this Agreement, Company will engage Sales Attack, LLC to provide marketing services on behalf of Company under customary terms and conditions.

#### Section 5.12 Employment Agreements.

(1) Company will execute amendments to all of its employment contracts with its employees to ensure that the provisions of this Agreement will not trigger the "change in control" provisions in those contracts.

(2) Company will execute an amendment to the employment contract of Kevin P. Stolz reducing his compensation to \$70,000 until Company executes a new agreement with a potential customer currently testing Company's technology that results in new annual revenue of at least \$100,000 per year.

Section 5.13 Capital Expenditures and Transfers. For 240 days after the Effective Date of this Agreement, Company shall not make any capital acquisitions or expenditures over ten thousand (\$10,000.00) dollars without the prior written consent of Purchaser. This period may be extended for an additional 240 days by a vote of the entire Board, including the Board members designated by Purchaser. Company shall not make any payments or transfers of property to any shareholder, officer, director, or key employee other than (A) salaries, bonuses, and compensation for actual services rendered, as approved by Purchaser; and (B) reasonable and customary directors' fees for directors, without the prior written consent of Purchaser.

Section 5.14 Non-Disclosure. Purchaser agrees to treat all material, non-public information received from Company as confidential information and not disclose such information to any third party. Purchaser agrees that it will not trade in Company' s stock based on any material, non-public information.

## **ARTICLE VI Indemnification**

Section 6.1 Indemnification Generally. The Company shall indemnify the Purchaser and its Affiliates, and their respective directors, officers, shareholders and other equity holders, partners, members, attorneys, accountants, agents, advisors, representatives and employees and, as applicable, their respective heirs, successors and permitted assigns (each of the foregoing, in such capacity (as applicable), a "Purchaser Indemnified Party") from and against any and all losses, damages, liabilities, fines, costs, claims, charges, actions, proceedings, demands, judgments, settlement costs and expenses of any nature whatsoever (including, without limitation, reasonable attorneys' fees and out-of-pocket expenses), whether joint or several (any of the foregoing, a "Loss") resulting from any breach of a representation, warranty or covenant by the Company. The Purchaser shall indemnify the Company and its Affiliates, and their respective directors, trustees, officers, shareholders and other equity holders, partners, members, attorneys, accountants, agents, advisors, representatives and employees and, as applicable, their respective heirs, successors and permitted assigns (each of the foregoing, in such capacity (as applicable), a "Company Indemnified Party"; each Company Indemnified Party and Purchaser Indemnified Party, (an "Indemnified Party") from and against any and all Losses resulting from any breach of a representation, warranty or covenant by the Purchaser.

Section 6.2 Indemnification Procedures For Third-Party Claims. If a claim by a third party (including claims for breaches of fiduciary duties) is made against an Indemnified Party and such Indemnified Party intends to seek indemnity with respect thereto from the Company (in the case of a Purchaser Indemnified Party seeking such indemnity) or the Purchaser (in the case of a Company Indemnified Party seeking indemnity) (each of the Company or the Purchaser, as the case may be, in such capacity, an "Indemnifying Party"), such Indemnified Party shall give notice in writing as promptly as reasonably practicable to such Indemnifying Party of any Proceeding commenced against or by it in respect of which indemnity may be sought hereunder, but failure to so notify such Indemnifying Party shall not relieve such Indemnifying Party from any liability that it may have on account of this Article VI, so long as such failure shall not have materially prejudiced the position of such Indemnifying Party. Upon such notification, the Indemnifying Party shall assume the defense of such Proceeding brought by a third party, and, after such assumption, the Indemnified Party shall not be entitled to reimbursement of any expenses thereafter incurred by it in connection with such Proceeding, except as described below. In any such Proceeding, any Indemnified Party shall have the right to retain its own counsel (including local counsel), but the fees and expenses of such counsel shall be at the expense of such Indemnified Party unless (i) the Indemnifying Party shall have failed to promptly assume and thereafter conduct such defense, (ii) the Indemnifying Party and the Indemnified Party shall have mutually agreed to the contrary, (iii) in the reasonable determination of counsel for the Indemnified Party, representation of such Indemnified Party by counsel obtained by the Indemnifying Party would be inappropriate due to actual or potential conflicting interests between such Indemnified Party and any other party represented by such counsel in such proceeding. No Indemnifying Party, in the defense of a third-party claim, shall, except with the consent of the Indemnified Party, consent to entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect of such claim. The Indemnifying Party shall not be liable for any settlement of any Proceeding effected without its written consent (which shall not be unreasonably withheld, delayed or conditioned by such Indemnifying Party), but if settled with such consent or if there be final judgment for the plaintiff, the Indemnifying Party shall indemnify the Indemnified Party from and against any Loss by reason of such settlement or judgment. The Indemnifying Party will advance expenses to an Indemnified Party as reasonably incurred so long as such indemnified party shall have provided the indemnifying party with a written undertaking to reimburse the indemnifying party for all amounts so advanced if it is ultimately determined that the indemnified party is not entitled to indemnification hereunder (which shall include breaches of fiduciary duty if permitted above).

Section 6.3 Survival of Representations, Warranties and Covenants. All representations and warranties and covenants contained in this Agreement or made in writing by or on behalf of the Company or the Purchaser in connection with the transactions contemplated by this Agreement shall survive, for the duration of any statutes of limitation applicable thereto, the execution and delivery of this Agreement, any investigation at any time made by the Company, the Purchaser or on such party's behalf, the purchase of the Convertible Preferred Shares by the Purchaser under this Agreement and any disposition of or payment on the Convertible Preferred Shares. All statements contained in any certificate or other instrument delivered to the Purchaser or the Company by or on behalf of the Company or the Purchaser pursuant to this Agreement shall be deemed representations and warranties of the Company or the Purchaser, respectively, under this Agreement.

## **ARTICLE VII Miscellaneous**

### Section 7.1 Expenses and Taxes.

(1) Each party to this Agreement shall bear its own respective costs and expenses incurred in connection with the preparation, execution and delivery of this Agreement and the agreements and transactions contemplated hereby, except that the Company shall reimburse the Purchaser for its reasonable legal fees and disbursements incurred in connection with the negotiation and documentation of the purchase of the Convertible Preferred Shares.

(2) All transfer, stamp (including documentary stamp taxes, if any), and other similar taxes (including, in each case, any penalties, interest or additions thereto) with respect to the initial purchase and sale of the Convertible Preferred Shares, shall be borne by the Company.

Section 7.2 Further Assurances. Purchaser and the Company shall duly execute and deliver, or cause to be duly executed and delivered, at its own cost and expense, such further instruments and documents and to take all such action, in each case as may be necessary or proper in the reasonable judgment of each Company or the Purchaser, respectively, upon the reasonable advice of counsel, to carry out the provisions and purposes of this Agreement and the other Documents.

Section 7.3 Securities Law Disclosure; Public Announcement. The Company shall issue a current report on Form 8-K within the time periods required thereby disclosing the material terms of the transactions contemplated hereby and attaching this Agreement and the Warrant as exhibits thereto. Except as set forth below, no public release or announcement concerning the transactions contemplated hereby shall be issued by the Company or any of its Subsidiaries without the prior consent of the Purchasers (which consents shall not be unreasonably withheld), except as such release or announcement may be required by law or the applicable rules or regulations of any securities exchange or securities market, in which case the Company shall allow the Purchaser to the extent reasonably practicable under the circumstances, reasonable time to comment on such release or announcement in advance of such issuance.

Section 7.4 No Third-Party Beneficiaries. Except as expressly provided herein, this Agreement shall not confer any rights or remedies upon any Person other than the parties hereto and their respective successors and permitted assigns.

Section 7.5 Entire Agreement. This Agreement, the August 25, 2008 commitment letter, the warrants and the other Documents constitute the entire agreement among the parties hereto and supersede any prior understandings, agreements or representations by or among such parties, written or oral, that may have related in any way to the subject matter of any Document.

Section 7.6 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. The Company may not assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of the Purchaser. The rights and obligations of the Purchaser hereunder shall be binding upon and inure to the benefit of any and all Persons to whom the Purchaser transfers any Convertible Preferred Shares in each case with the same force and effect as if the foregoing Persons were named herein as Purchaser parties hereto; provided, that any such transferee of the Convertible Preferred Shares has executed and delivered to the Company an Instrument of Accession in the form of Exhibit E. References herein to Convertible Preferred Shares sold by the Company and purchased by the Purchaser shall be deemed to include Convertible Preferred Shares held or owned by any transferees of the Purchaser, and references to the Purchaser herein (including, without limitation, such references contained in Article VI) shall be deemed to include such transferees. Notwithstanding the foregoing, the Purchaser may not transfer or assign any of its rights or obligations hereunder or the Convertible Preferred Shares in violation of the provisions of the Certificate of Designation (including the restrictive legends contained therein) or in violation of the Securities Act or any other manner that would have resulted in a requirement to register the Convertible Preferred Shares purchased on the date hereof. Purchaser may assign, transfer or delegate its obligations and rights under this Agreement to any affiliate.

Section 7.7 Counterparts. This Agreement may be executed in one or more counterparts (including via facsimile or similar instantaneous electronic transmission devices pursuant to which the signature of or on behalf of such party can be seen), each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

Section 7.8 Notices. All notices, requests, demands, claims and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered personally, telecopied, sent by internationally-recognized overnight courier or mailed by registered or certified mail (return receipt requested), postage prepaid, to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

If to the Company, to:

Ecology Coatings, Inc.  
2701 Cambridge Court  
Suite 100  
Auburn Hills, MI 48326

Telephone: (248) 736-6200  
Telecopy: (866)750-2489  
Attention: General Counsel

If to the Purchaser, to:

Equity 11, Ltd.  
2701 Cambridge Court  
#420  
Auburn Hills, MI 48326  
Telephone: (248) 377-8012  
Telecopy: (248) 377-6302  
Attention: JB Smith

All such notices and other communications shall be deemed to have been given and received (i) in the case of personal delivery, on the date of such delivery, (ii) in the case of delivery by telecopy, on the date of such

delivery, (iii) in the case of delivery by internationally-recognized overnight courier, on the third Business Day following dispatch and (iv) in the case of mailing, on the seventh Business Day following such mailing.

Section 7.9 Governing Law. This agreement shall be governed by and construed in accordance with the internal laws of the state of Michigan, without regard to the principles of conflicts of laws thereof.

Section 7.10 Submission to Jurisdiction. Except as otherwise set forth in this Section 7.10, no claim under this Agreement by a party against the other party may be commenced, prosecuted or continued in any court other than the courts of the State of Michigan located in Pontiac, Michigan in Oakland County or in the United States District Court for the Southern District of Michigan located in the City of Detroit, Michigan, which courts shall have exclusive jurisdiction over the adjudication of such matters, and the parties hereto consent to personal jurisdiction, service and venue in any court in which any claim arising out of or in any way relating to this Agreement is brought by any third party against the Company or any Indemnified Party. The parties hereto agree that a final judgment in any such action, proceeding or counterclaim brought in any such court shall be conclusive and binding upon the parties and may be enforced in any other courts in the jurisdiction of which the parties is or may be subject, by suit upon such judgment.

Section 7.11 Specific Performance. The parties hereto acknowledge that there would be no adequate remedy at law if any party fails to perform any of its obligations hereunder, and accordingly agree that each party, in addition to any other remedy to which it may be entitled at law or in equity, shall be entitled to compel specific performance of the obligations of any other party under this Agreement in accordance with the terms and conditions of this Agreement and immediate injunctive relief, without the necessity of proving the inadequacy of money damages as a remedy, in any court of the United States or any State thereof having jurisdiction.

Section 7.12 Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by both parties hereto. No waiver by any party of any default, misrepresentation, or breach of representation, warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of representation, warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence. No such waiver shall be effective unless signed by the party against which the waiver is to be effective.

Section 7.13 Incorporation of Schedules and Exhibits. The Annex, Schedules and Exhibits identified in this Agreement are incorporated herein by reference and made a part hereof.

Section 7.14 Construction. Where specific language is used to clarify by example a general statement contained herein, such specific language shall not be deemed to modify, limit or restrict in any manner the construction of the general statement to which it relates. The use in this Agreement of the term “including” means “including, without limitation.” The language used in this Agreement shall be deemed to be the language chosen by the parties to express their mutual intent, and no rule of strict construction shall be applied against any party.

Section 7.15 Interpretation. Unless otherwise indicated, references to “\$” are references to the U.S. dollar. Accounting terms used but not otherwise defined herein shall have the meanings given to them under GAAP. As used in this Agreement (including all Annexes, Schedules, Exhibits and amendments hereto), the masculine, feminine and neuter gender and the singular or plural number shall be deemed to include the others whenever the context so requires. References to Articles and Sections refer to articles and sections of this Agreement. Similarly, references to Annexes, Schedules and Exhibits refer to schedules and exhibits, respectively, attached to this Agreement. Unless the content requires otherwise, words such as “hereby,” “herein,” “hereinafter,” “hereof,” “hereto,” “hereunder” and words of like import refer to this Agreement. The article and section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 7.16 Severability. It is the desire and intent of the parties that the provisions of this Agreement be enforced to the fullest extent permissible under the Laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular provision of this Agreement shall be adjudicated by a court of competent jurisdiction to be invalid, prohibited or unenforceable for any reason, such provision, as to such jurisdiction, shall be ineffective, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction. Notwithstanding the foregoing, if such provision could be more narrowly written so as not to be invalid, prohibited or unenforceable in such jurisdiction, it shall, as to such jurisdiction, be deemed to be so narrowly written, to the minimum extent necessary to prevent the rendering of such provision from being invalid or unenforceable, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

Section 7.17 Waiver of Jury Trial.

**EACH OF THE PARTIES HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER DOCUMENT.**

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

**ECOLOGY COATINGS, INC.**

By: /s/ Richard Stromback

**Richard D. Stromback**

Its: **Chairman & CEO**

**EQUITY 11, LTD.**

By: /s/ JB Smith

**JB Smith**

Its: **CEO**

## Annex I

### CERTAIN DEFINITIONS

“Assets” means, with respect to any Person, all of the assets, rights, interests and other properties, real, personal and mixed, tangible and intangible, owned by such Person.

“Business Day” means any day that is not a Saturday, Sunday, legal holiday or other day on which banks are required to be closed in New York, New York.

“Documents” means this Agreement and the Certificate of Designation, collectively.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“Fundamental Documents” means, with respect to a corporation, the charter and bylaws (each as amended) or, with respect to any other Person, the documents by which such Person (other than an individual) establishes its legal existence or which govern its internal affairs.

“GAAP” means, at any time, generally accepted accounting principles in the jurisdiction in which the Person to which such principles are applied is organized at such time.

“Governmental Entity” means any court, administrative agency or commission or other governmental authority or instrumentality, domestic or foreign, federal, state or local.

“Law” means any constitution, law, statute, treaty, rule, directive, requirement or regulation or Order, domestic or foreign, of any Governmental Entity or any rules or regulations of any self-regulatory organization.

“Lien” means any security interest, pledge, bailment (in the nature of a pledge or for purposes of security), mortgage, deed of trust, the grant of a power to confess judgment, conditional sale, trust receipt or other title retention agreement (including any lease in the nature thereof), lien, charge, encumbrance, claim, equity, easement, reservation, restriction, cloud, right of first refusal or first offer, option, equity or adverse claim or other similar arrangement or interest in real or personal property.

“Order” means any order, writ, judgment, injunction, decree, determination or award issued by a Governmental Entity.

“Person” means any individual, corporation, partnership, limited liability company, trust, estate, or unincorporated organization, or other entity or Governmental Entity or other juridical entity.

“Proceeding” means any action, suit, claim, inquiry, investigation or proceeding by or before any Governmental Entity.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Subsidiary” means any entity in which the Company directly or indirectly, through one or more intermediaries, (a) holds beneficially or of record securities that would entitle the Company to exercise 50% or more of the votes that could be cast in the election of members to the board of directors, board of managers or other

governing body of such entity, or (b) possesses, directly or indirectly, power (whether through the ownership of voting securities or, through membership on the board of directors, managers or other governing body, by contract (including, without limitation, a limited partnership agreement or general partnership agreement) or otherwise) to direct or cause the direction of the management and policies of such entity.

**EXHIBIT A**  
CERTIFICATE OF DESIGNATION  
of  
5% CUMULATIVE CONVERTIBLE PREFERRED SHARES  
of  
ECOLOGY COATINGS, INC.

ECOLOGY COATINGS, INC. is a Nevada corporation created and existing under the laws of the state of Nevada (the “Company”), and

DOES HEREBY CERTIFY:

**Section 1. Designation; Number.**

This series of Convertible Preferred Stock is designated as the “Convertible Preferred Shares” (“Convertible Preferred Shares”). The number of shares constituting the Convertible Preferred Stock is 5,000 shares, par value \$0.001 per share.

**Section 2. Conversion.**

- (a) The Convertible Preferred Shares can be converted at the Purchaser’s option at any time into shares of the Company’s common stock at a conversion price of \$0.50 per share (the “Conversion Price”). The number of common shares will be determined by dividing the stated value of the Convertible Preferred Shares to be converted by the Conversion Price.

- (b) If requested by the Company, each holder of record of a share of Convertible Preferred Stock must convert any whole number or all of such holder’s shares of Convertible Preferred Stock into fully paid and nonassessable shares of Common Stock at the Conversion Price if, on or after August 25, 2009, the Company’s common stock price exceeds \$3.00 per share for a continuous 30-day period

- (c) Any such conversion may be effected by the holder of Convertible Preferred Shares by surrendering such holder’s certificate or certificates for the shares of Convertible Preferred Shares to be converted, duly endorsed, at the office of the Corporation or the office of any transfer agent for the Common Stock, together with a written notice to the Corporation at such office that such holder elects to convert all or a specified number of such shares of Convertible Preferred Stock. Promptly thereafter, the Corporation shall issue and deliver to such holder a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid. Such conversion shall be made at the close of business on the date of such surrender and the person entitled to receive the shares of Common Stock issuable on such conversion shall be treated for all purposes as the record holder of such shares of Common Stock on such date.

**Section 3. Voting Rights.**

Each holder thereof shall be entitled to vote, together with the holders of the shares of Common Stock (and any other class or series that may similarly be entitled to vote with the shares of Common Stock) as a single class, upon all matters upon which holders of Common Stock are entitled to vote, with each share of Convertible Preferred Stock entitled to one vote on such matters. The Company cannot alter or adversely change the rights of the Convertible Preferred Shares, authorize or create any class of senior or parity preferred stock, amend its articles of incorporation or other charter documents in such a way that it would adversely affect the rights of the Convertible Preferred Shares or increase the number of authorized share of convertible preferred stock without the approval of holders of a majority of the Convertible Preferred Shares.

**Section 4. Dividends.**

The holders of shares of Series A Convertible Preferred Stock shall receive cumulative dividends of 5% payable semi-annually on June 1 and December 1 commencing December 1, 2008.

**Section 5. Redemption.**

In the event of any liquidation, dissolution, winding up or insolvency of the Corporation, whether voluntary or involuntary, before any distribution or payment is made to any holders of shares of Common Shares or any other class or series of capital stock of the Company designated to be junior to the Convertible Preferred Stock, and subject to the liquidation rights and preferences of any class or series of preferred stock designated in the future to be senior to, or on a parity with, the Convertible Preferred Stock with respect to liquidation preferences, the holders of Convertible Preferred Stock shall be entitled to be paid first out of the assets of the Corporation available for distribution to holders of capital stock of all classes whether such assets are capital, surplus or earnings together with the amount of any accrued or capitalized dividends in respect thereof (the "Liquidation Preference"). After payment in full to the holders of Convertible Preferred Stock of the Liquidation Preference, holders of the Convertible Preferred Stock shall, as such, have no right or claim to any of the remaining Available Assets.

**Section 6. Optional Redemption.**

On or after August 25, 2013 the Company may redeem the convertible preferred stock, in whole or in part, at its option for the stated value at the time of such redemption, together with accrued but unpaid dividends and other payments that may be due on such shares. On or after August 25, 2015 the Purchaser may redeem the convertible preferred stock, in whole or in part, at its option for the stated value at the time of such redemption, together with accrued but unpaid dividends and other payments that may be due on such shares.

**Section 7. Additional Definitions.** For purposes of these resolutions, the following terms shall have the following meanings:

"**Common Stock**" refers to the common stock of the Corporation, par value \$0.001 per share.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Designations to be executed by a duly authorized officer of the Corporation as of this day of August, 2008.

ECOLOGY COATINGS, INC.

By: /s/ \_\_\_\_\_

Name:

Title:

ANNEX TO  
CERTIFICATE OF DESIGNATION  
NOTICE OF CONVERSION

To: Ecology Coatings, Inc.

Reference is made to that certain Certificate of Designation of 5% Cumulative Convertible Preferred Shares (the "5% Designation"). Capitalized terms used but not defined herein have the meanings set forth in the 5% Designation. Pursuant to the 5% Designation, the undersigned, being a holder of 5% Cumulative Convertible Preferred Shares (an "Exercising Holder"), hereby elects to exercise its conversion rights as to a portion or portions of its 5% Cumulative Convertible Preferred Shares, all as specified opposite its signature below:

Dated:

<u>EXERCISING HOLDER</u>		NUMBER OF 5% CUMULATIVE CONVERTIBLE PREFERRED SHARES, SERIES A-1 TO BE CONVERTED TO <u>COMMON SHARES</u>
Name	Signature	

**EXHIBIT E**

Instrument of Accession

Reference is made to the Securities Purchase Agreement (the "Purchase Agreement"), dated as of August , 2008, between Ecology Coatings, Inc., a statutory corporation created under the laws of the state of Nevada, and Equity 11, Ltd., a Michigan corporation. Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Purchase Agreement.

The undersigned, \_\_\_\_\_, as a condition precedent to becoming the owner or holder of record of \_\_\_\_\_ (\_\_\_\_) Convertible Preferred Shares hereby agrees to become a Purchaser party to and to be bound by all of the obligations of the Purchaser under the Purchase Agreement (other than with respect to Section 2.1 thereof), and shall be the recipient of all the rights of the Purchaser under the Purchase Agreement (other than with respect to Sections 7.1, 9.1 and 9.3 thereof). The undersigned hereby makes to the Company (as of the date written below) the representations and warranties of the Purchaser contained in Article VI of the Purchase Agreement. The Company hereby makes (as of the date of the Purchase Agreement) the representations and warranties of the Company contained in Article V of the Purchase Agreement, and the Company hereby agrees that the undersigned shall have all of the rights of the Purchaser under the Purchase Agreement (other than any rights provided to the Purchaser under Sections 2.1, 7.1, 9.1 and 9.3 thereof). This Instrument of Accession shall take effect and shall become an integral part of the Purchase Agreement immediately upon execution and delivery to the Company of this Instrument of Accession.

The address for notification to the undersigned for purposes of Section 7.8 of the Purchase Agreement is as follows:

Telephone: \_\_\_\_\_

Telecopy: \_\_\_\_\_

Attention: \_\_\_\_\_

IN WITNESS WHEREOF, the undersigned has caused this Instrument of Accession to be signed as of the date below written.

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

Name:

Title:

Agreed to and Accepted

**ECOLOGY COATINGS, INC.**

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

Name:

Tit

**FIRST AMENDMENT OF EMPLOYMENT AGREEMENT OF RICHARD D.  
STROMBACK**

THIS FIRST AMENDMENT OF EMPLOYMENT AGREEMENT is by and between Ecology Coatings, Inc., a Nevada corporation (the "Company"), and Richard D. Stromback (the "Executive") and is entered to be effective as of the 27th day of August, 2008 (the "Amendment Date").

WHEREAS, the Company and the Executive entered into that certain Employment Agreement dated as of January 1, 2007 (the "Agreement") and desire in accordance with Section 13.5 of the Agreement to make certain amendments thereto;

Now, therefore, it is hereby agreed as follows:

1. Paragraph 4.5 of the Agreement is amended to read as follows:

*4.5 Change in Control.* If, during the term of this Agreement and within one year after a "Change in Control," as defined below, the Company shall terminate the Executive's employment other than for Cause, Death or Disability or the Executive shall terminate employment for Good Reason, the Company shall (i) pay to the Executive the amount of compensation that would have been payable to the Executive over the period then remaining under this Agreement and on the same schedule as such payments would have been due had the termination not occurred, provided that the Company shall pay the Executive for a minimum of twenty-four (24) months on this basis; and (ii) cause all stock options issued to the Executive that have not vested as of the termination to be immediately vested.

*4.5.1* The term "Change in Control" shall mean an event or the last of a series of related events by which:

*4.5.2* the Company merges or consolidates with or into another entity or completes any other corporate reorganization, if more than fifty percent (50%) of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization; or

*4.5.3* the Company sells, transfers or otherwise disposes of all or substantially all of the consolidated assets of the Company or its subsidiaries and the Company does not own stock in the purchaser or purchasers having more than fifty percent (50%) of the voting power in elections for directors; or

*4.5.4* the composition of the Board changes, as a result of which fewer than one half of the incumbent directors are directors who either:

(i) had been directors of the Company twenty-four (24) months prior to such change; or

(ii) were elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the directors who had been directors of the Company twenty-four (24) months prior to such change and who were still in office at the time of the election or nomination.

A transaction shall not constitute a Change of Control if (i) its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the Persons who held the Company's securities immediately before such transaction (ii) the Company acquires another corporation or entity through the purchase or other acquisition of control of the voting stock or assets of such corporation or entity or (iii) the transaction involves Equity 11, Ltd. or any its affiliates; or

4.5.5 any Person acquires direct or indirect beneficial ownership of more than thirty-three percent (33%) of the voting power of the Company, whether in a single transaction or a series of transactions.

4.5.6 As used in this Agreement, a "Person" means any "person," as that term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, together with all of that person's "affiliates" and "associates," as those terms are defined in Rule 12b-2 of such Act.

[Remainder of this page left intentionally blank]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the Effective Date.

**The Company:**

**Ecology Coatings, a Nevada corporation**

/s/ David W. Morgan

David W. Morgan  
Chief Financial Officer

**The Executive:**

**RICHARD D. STROMBACK**

/s/ Richard D. Stromback

Richard D. Stromback

**SECOND AMENDMENT TO THE EMPLOYMENT AGREEMENT OF DAVID W. MORGAN**

THIS SECOND AMENDMENT is by and between Ecology Coatings, Inc., a Nevada corporation (the "Company"), and David W. Morgan (the "Executive") and is entered to be effective as of the day of August, 2008 (the "Amendment Date").

WHEREAS, the Company and the Executive entered into that certain Employment Agreement dated as of May 23, 2007 (the "Agreement") as amended on October 11, 2007 and desire in accordance with Section 10.1 of the Agreement to make certain amendments thereto;

Now, therefore, it is hereby agreed as follows:

1. Paragraph 4.5 of the Agreement is amended to read as follows:

*4.5 Change in Control.* If, during the term of this Agreement and within one year after a "Change in Control," as defined below, the Company shall terminate the Executive's employment other than for Cause, Death or Disability or the Executive shall terminate employment for Good Reason, the Company shall (i) pay to the Executive the amount of compensation that would have been payable to the Executive over the period then remaining under this Agreement and on the same schedule as such payments would have been due had the termination not occurred, provided that the Company shall pay the Executive for a minimum of twenty-four (24) months on this basis; and (ii) cause all stock options issued to the Executive that have not vested as of the termination to be immediately vested.

*4.5.1* The term "Change in Control" shall mean an event or the last of a series of related events by which:

*4.5.2* the Company merges or consolidates with or into another entity or completes any other corporate reorganization, if more than fifty percent (50%) of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization; or

*4.5.3* the Company sells, transfers or otherwise disposes of all or substantially all of the consolidated assets of the Company or its subsidiaries and the Company does not own stock in the purchaser or purchasers having more than fifty percent (50%) of the voting power in elections for directors; or

*4.5.4* the composition of the Board changes, as a result of which fewer than one half of the incumbent directors are directors who either:

(i) had been directors of the Company twenty-four (24) months prior to such change; or

(ii) were elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the directors who had been directors of the Company twenty-four (24) months prior to such change and who were still in office at the time of the election or nomination.

A transaction shall not constitute a Change of Control if (i) its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the Persons who held the Company's securities immediately before such transaction (ii) the Company acquires another corporation or entity through the purchase or other acquisition of control of the voting stock or assets of such corporation or entity or (iii) the transaction involves Equity 11, Ltd. or any its affiliates; or

4.5.5 any Person acquires direct or indirect beneficial ownership of more than thirty-three percent (33%) of the voting power of the Company, whether in a single transaction or a series of transactions.

4.5.6 As used in this Agreement, a "Person" means any "person," as that term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, together with all of that person's "affiliates" and "associates," as those terms are defined in Rule 12b-2 of such Act.

[Remainder of this page left intentionally blank]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the Effective Date.

**The Company:**

**Ecology Coatings, a Nevada corporation**

/s/ Richard D. Stromback

Richard D. Stromback  
Chief Executive Officer

**The Executive:**

**David W. Morgan**

/s/ David W. Morgan

David W. Morgan

**SECOND AMENDMENT TO THE EMPLOYMENT AGREEMENT OF F. THOMAS KROTINE**

THIS SECOND AMENDMENT is by and between Ecology Coatings, Inc., a Nevada corporation (the "Company"), and F. Thomas Krotine (the "Executive") and is entered to be effective as of the day of August, 2008 (the "Amendment Date").

WHEREAS, the Company and the Executive entered into that certain Employment Agreement dated as of November 1, 2006 (the "Agreement") as amended on November 8, 2007 and, and in accordance with Section 10.1 of the Agreement, desire to make certain amendments thereto;

Now, therefore, it is hereby agreed as follows:

1. Paragraph 4.5 of the Agreement is amended to read as follows:

*4.5 Change in Control.* If, during the term of this Agreement and within one year after a "Change in Control," as defined below, the Company shall terminate the Executive's employment other than for Cause, Death or Disability or the Executive shall terminate employment for Good Reason, the Company shall (i) pay to the Executive the amount of compensation that would have been payable to the Executive over the period then remaining under this Agreement and on the same schedule as such payments would have been due had the termination not occurred, provided that the Company shall pay the Executive for a minimum of twenty-four (24) months on this basis; and (ii) cause all stock options issued to the Executive that have not vested as of the termination to be immediately vested.

*4.5.1* The term "Change in Control" shall mean an event or the last of a series of related events by which:

*4.5.2* the Company merges or consolidates with or into another entity or completes any other corporate reorganization, if more than fifty percent (50%) of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization; or

*4.5.3* the Company sells, transfers or otherwise disposes of all or substantially all of the consolidated assets of the Company or its subsidiaries and the Company does not own stock in the purchaser or purchasers having more than fifty percent (50%) of the voting power in elections for directors; or

*4.5.4* the composition of the Board changes, as a result of which fewer than one half of the incumbent directors are directors who either:

(i) had been directors of the Company twenty-four (24) months prior to such change; or

(ii) were elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the directors who had been directors of the Company twenty-four (24) months prior to such change and who were still in office at the time of the election or nomination.

A transaction shall not constitute a Change of Control if (i) its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the Persons who held the Company's securities immediately before such transaction (ii) the Company acquires another corporation or entity through the purchase or other acquisition of control of the voting stock or assets of such corporation or entity or (iii) the transaction involves Equity 11, Ltd. or any its affiliates; or

4.5.5 any Person acquires direct or indirect beneficial ownership of more than thirty-three percent (33%) of the voting power of the Company, whether in a single transaction or a series of transactions.

4.5.6 As used in this Agreement, a "Person" means any "person," as that term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, together with all of that person's "affiliates" and "associates," as those terms are defined in Rule 12b-2 of such Act.

[Remainder of this page left intentionally blank]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the Effective Date.

**The Company:**

**Ecology Coatings, a Nevada corporation**

/s/ Richard D. Stromback

Richard D. Stromback  
Chief Executive Officer

**The Executive:**

**F. THOMAS KROTINE**

/s/ F. Thomas Krotine

F. Thomas Krotine

**FIRST AMENDMENT TO THE EMPLOYMENT AGREEMENT OF KEVIN P. STOLZ**

THIS FIRST AMENDMENT is by and between Ecology Coatings, Inc., a Nevada corporation (the "Company"), and Kevin P. Stolz (the "Executive") and is entered to be effective as of the 29th day of August, 2008 (the "Amendment Date").

WHEREAS, the Company and the Executive entered into that certain Employment Agreement dated as of February 1, 2008 (the "Agreement") and desire in accordance with Section 10.1 of the Agreement to make certain amendments thereto;

Now, therefore, it is hereby agreed as follows:

1. Paragraph 4.5 of the Agreement is amended to read as follows:

*4.5 Change in Control.* If, during the term of this Agreement and within one year after a "Change in Control," as defined below, the Company shall terminate the Executive's employment other than for Cause, Death or Disability or the Executive shall terminate employment for Good Reason, the Company shall (i) pay to the Executive the amount of compensation that would have been payable to the Executive over the period then remaining under this Agreement and on the same schedule as such payments would have been due had the termination not occurred, provided that the Company shall pay the Executive for a minimum of twenty-four (24) months on this basis; and (ii) cause all stock options issued to the Executive that have not vested as of the termination to be immediately vested.

*4.5.1* The term "Change in Control" shall mean an event or the last of a series of related events by which:

*4.5.2* the Company merges or consolidates with or into another entity or completes any other corporate reorganization, if more than fifty percent (50%) of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization; or

*4.5.3* the Company sells, transfers or otherwise disposes of all or substantially all of the consolidated assets of the Company or its subsidiaries and the Company does not own stock in the purchaser or purchasers having more than fifty percent (50%) of the voting power in elections for directors; or

*4.5.4* the composition of the Board changes, as a result of which fewer than one half of the incumbent directors are directors who either:

(i) had been directors of the Company twenty-four (24) months prior to such change; or

(ii) were elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the directors who had been directors of the Company twenty-four (24) months prior to such change and who were still in office at the time of the election or nomination.

A transaction shall not constitute a Change of Control if (i) its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the Persons who held the Company's securities immediately before such transaction (ii) the Company acquires another corporation or entity through the purchase or other acquisition of control of the voting stock or assets of such corporation or entity or (iii) the transaction involves Equity 11, Ltd. or any its affiliates; or

4.5.5 any Person acquires direct or indirect beneficial ownership of more than thirty-three percent (33%) of the voting power of the Company, whether in a single transaction or a series of transactions.

4.5.6 As used in this Agreement, a "Person" means any "person," as that term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, together with all of that person's "affiliates" and "associates," as those terms are defined in Rule 12b-2 of such Act.

2. Effective October 1, 2008, the base salary specified in Section 2.3.1 shall be changed to Seventy Thousand Dollars (\$70,000) and shall remain so until Company executes a new agreement with a potential customer currently testing Company's technology that results in new annual revenue of at least \$1,000,000 per year. When such revenue is realized, Executive's base salary will return to One Hundred Forty Thousand Dollars (\$140,000).

3. The Company will recommend to the Board of Directors that the Board approve the issuance of 10,000 additional stock options to Executive.

4. In all other respects, the terms of the Agreement shall remain in full force and effect.

[Remainder of this page left intentionally blank]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the Effective Date.

**The Company:**

**Ecology Coatings, a Nevada corporation**

/s/ Richard D. Stromback

Richard D. Stromback  
Chief Executive Officer

**The Executive:**

**KEVIN P. STOLZ**

/s/ Kevin P. Stolz

Kevin P. Stolz